



HARVARD Kennedy School

*Corporate Social
Responsibility Initiative*



EXPANDING OPPORTUNITY and ACCESS

Approaches that harness markets and the private sector to create business value and development impact

Jane Nelson

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Cover photographs: Workers at a textile factory in Tirupur. There are some 7,000 garment factories in the city, providing employment to close to one million people, **Atul Loke/PANOS**; Farmer Oumar Sakho, 50, stands in his corn field using a mobile phone in Senegal, **Jacob Silberberg/PANOS**; Radja outside her small shop, selling mobile phones, scratch cards and photocopying services in Naivasha, **Sven Torfinn/PANOS**.

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The market mechanism, which arouses passion in favor as well as against, is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. In this light, it is very hard indeed to see how any reasonable critic could be against the market mechanism, as such. The problems that arise spring typically from other sources – not from the existence of markets per se – and include such concerns as inadequate preparedness to make use of market transactions, unconstrained concealment of information or unregulated use of activities that allow the powerful to capitalize on their asymmetrical advantage. These have to be dealt with not by suppressing the markets, but by allowing them to function better and with greater fairness, and with adequate supplementation. The overall achievements of the market are deeply contingent on political and social arrangements.

Amartya Sen
Master of Trinity College, Cambridge University
Winner of the 1998 Nobel Prize in Economic Science
Development as Freedom
1999¹

We can make market forces work better for the poor if we can develop a more creative capitalism – if we can stretch the reach of market forces so that more people can make a profit, or at least make a living, serving people who are suffering from the worst inequities. We can also press governments around the world to spend taxpayer money in ways that better reflect the values of the people who pay the taxes. If we can find approaches that meet the needs of the poor in ways that generate profits for business and votes for politicians, we will have found a sustainable way to reduce inequity in the world. The task is open-ended. It can never be finished. But a conscious effort to answer this challenge will change the world.

Bill Gates
Chairman, Bill & Melinda Gates Foundation
Commencement Address, Harvard University
June 7th, 2007²



Executive Summary

This report outlines the role of inclusive markets and the private sector in increasing opportunities and access for people in developing countries to lift themselves out of poverty. The report profiles key trends and examples of private sector engagement in development. It illustrates new models of collaboration between business, government and civil society and concludes with recommendations for increasing the quantity and quality of private sector resources for development.

A vibrant and diversified private sector is a desired outcome of development, a crucial driver of development and an increasingly important partner with other actors in achieving effective development outcomes. Domestic and foreign private enterprises of all sizes and industry sectors are playing a role in expanding opportunities and access for people in developing countries to lift themselves out of poverty. Pioneering corporations, entrepreneurs and financiers are delivering innovative new approaches and resources to support development goals while achieving their business objectives. They are leveraging their core competencies and value chains along with strategic philanthropy and public policy dialogue to include the poor as producers, employees and consumers, to spread more accountable and responsible business practices, and to drive more environmentally sustainable growth. They are developing new business models aimed at achieving competitive advantage alongside new collaborative models aimed at achieving systemic change.

Over 250 examples of domestic and foreign enterprises reviewed for this study illustrate the potential of private investment that explicitly aims to realize development impact while also creating business value. To achieve this dual objective innovation is often required in products, services, technologies, business models and stakeholder engagement mechanisms at the level of individual firms. Systems-level innovation is also necessary to accelerate the pace of change and to achieve scale and sustained impact. This includes coordinated interventions along key value chains and the creation of development clusters in areas such as agriculture, health and nutrition, water and sanitation, energy, housing, education and financial services. It requires the use of new technology platforms and the creation of new types of financial instruments and intermediaries that harness a combination of public, private and philanthropic resources. And it calls for policy and institutional reforms on the part of both donor and developing country governments.

These innovations require a dynamic combination of competition and collaboration among governments, among companies, and across private enterprises, governments, and civil society organizations. They require new mindsets and better understanding of and engagement with the poor as producers, employees and consumers. In short, new approaches to development are called for to unleash the capital, expertise, technology and ingenuity of the private sector and to make markets work better for the poor. They are also required to minimize negative impacts and ensure greater transparency and accountability for development outcomes on the part of governments, donors and corporations. The challenges are numerous, but so too are the opportunities to help several billion people lift themselves and their families out of poverty. And the urgency has rarely been greater.

The global financial crisis, volatility in food, fuel and other commodity prices, fundamental demographic shifts, conflict and state fragility in some countries and the early impacts of climate change in others, combine to make poverty alleviation an economic and security imperative, as well as a humanitarian and moral one. They force us to think more systemically about how to build positive links between job creation, income generation, access to essential products and services, ecosystem sustainability, and individual and institutional capacity development. And they call for more integrated approaches to addressing health, food, water, and energy access and security. Few of these challenges can be tackled without the active engagement of the private sector and other non-state actors. There is everything to play for. A number of transformative shifts are underway in the global development landscape. These make it possible perhaps for the first time to experiment with a wide variety of different business models and new collaborative approaches aimed at achieving systemic change.

The report offers four key messages:

1. Inclusive business and markets have a vital role to play in alleviating poverty and achieving other development goals.
2. Proactive leadership from the private sector is essential, especially from large corporations, high-impact commercial and social entrepreneurs and private financiers.
3. Other development actors can catalyze and enhance the contribution of the private sector – in particular, governments, bilateral and multilateral donors, philanthropic foundations, academic and research institutions, and non-governmental organizations.
4. New models of collaboration are required to scale and sustain impact. These range from firm-level partnerships to business leadership coalitions and systemic multi-stakeholder alliances.

Each of these four messages are explored in more detail in Parts One, Two, Three and Four respectively. In almost all cases, they embody communities of practice that are rapidly evolving and becoming increasingly complex and sophisticated. Most are the subject of other in-depth research studies and reports, some of which are noted in the endnotes and references. Rather than provide detailed analysis of each topic or community of practice, this report aims instead to identify key trends, map the broad landscape of activity and explore evolving linkages between different development actors and sectors. It aims to offer an systemic overview of the evolving ecosystem of private sector actors, market-based solutions and cross-sector partnerships that are contributing to international development goals. Part Five of the report offers recommendations for increasing the quantity and quality of private sector resources for development.

PART ONE: Inclusive business and markets have a vital role to play in alleviating poverty and achieving other development goals

The role of the private sector

Part One of the report outlines the growing importance of the private sector in development and identifies the following five key trends that are driving this process:

- The complexity and interdependence of global development challenges
- The search for new approaches by governments
- The rising prominence of non-state actors in development
- Growing recognition of the need to more directly listen to, learn from and engage with the poor themselves in finding solutions
- The transformative impact of scientific research and innovative new technologies.

Defining inclusive business and markets

The report draws on research by the United Nations Development Programme, World Business Council for Sustainable Development, Harvard Kennedy School, International Business Leaders Forum and others to define inclusive business as: “Business models that include the poor as producers, employees and consumers in an economically viable manner. They have an explicit focus on creating both business value and development impact.”³

Drawing on work by the Corporate Social Responsibility Initiative at Harvard Kennedy School and the International Finance Corporation, the report makes the following case for building more inclusive markets and business models:

“Inclusive business is interesting for companies because it can offer new opportunities for innovation, growth, and competitiveness, and facilitate better risk management and stakeholder engagement at the same time as achieving positive social and development impact. It is interesting for bilateral and multilateral donors, foundations, governments, and civil society organizations because it has the potential to drive development impact in self-sustaining, self-multiplying ways that do not require continuous infusions of aid or grant funding. And it is interesting for the poor because it brings greater access, choice, and opportunity in their lives and futures.”⁴

The report provides a brief overview of the role of markets. Inclusive business models and value chains don't happen in a vacuum. Private sector players must have the capacity and incentives to develop and operate inclusive business models. Similarly, the poor must have the capacity and incentives to participate in them. And both sides must be able to protect their rights in the transaction. Enabling environments are therefore required. Such enabling environments are increasingly labeled “inclusive markets” or “inclusive market systems” and include rules, supporting functions, and the institutions behind them.⁵ They require a strong state with effective and accountable political, social and economic institutions and infrastructure. In addition to the essential role of government, public donors, philanthropic foundations, academic institutions and other civil society organizations all play a vital role in building these enabling environments.

Pathways out of poverty

The report then focuses on how people lift themselves and their families out of poverty in large part by participating in markets as producers, employees and consumers: earning income; gaining more affordable and reliable access to essential goods and services and to productivity enhancing inputs; building assets; and being able to exercise choice and voice in determining their futures. Regardless of whether these markets are local, national, regional or global or whether they are in mega-cities or rural villages, if they are efficient and inclusive they can play a crucial role in expanding the opportunity and access that are essential to alleviating poverty.

The challenges of building inclusive business and markets

Part One of the report concludes with an overview of some of the barriers to inclusive business and markets. It notes that markets matter, but in far too many situations around the globe they are inefficient, inequitable and inaccessible. They fail to work for the poor. Several billion people continue to live in extreme poverty because of a combination of organizational, market development and governance barriers. These barriers include lack of relevant market information about the poor, and lack of knowledge, skills, capacity, finance and infrastructure on the part of both the poor and the private sector actors interested in serving them, including large corporations. They also include legal and regulatory obstacles, lack of accountability, and weak administrative and institutional capacity on the part of governments.

These barriers increase the real and perceived risks and costs, and limit the incentives for private sector actors to build inclusive business models and markets. This in turn makes it difficult and costly, if not impossible, for the poor to access formal markets as producers, employees and consumers. None of the barriers is insurmountable. But overcoming them requires creativity, technology, long-term commitment and a combination of competition and collaboration. Such approaches necessitate political and social interventions, as well as economic solutions. They require leadership and new modes of engagement from all major development actors and private sector leaders.

PART TWO: Proactive leadership from the private sector is essential, especially from large corporations, high-impact commercial and social entrepreneurs and private financiers

Part Two of the report explores the leadership role of the private sector. It focuses on three groups of private sector actor – both individuals and institutions - that play an especially important role in alleviating poverty and are essential components of any private sector ecosystem that will support more inclusive markets. These three groups are:

- Large Corporations
- High-Impact Entrepreneurs
- Private Financiers.

These private actors are important from both a catalytic and innovation perspective as well as in terms of scaling, replicating and sustaining positive impact. In all three cases there have been fundamental shifts over the past decade in how their roles in development are both understood and implemented. These shifts include the growing awareness of social entrepreneurship and fast growth entrepreneurs as key drivers of development; the increased mainstreaming of corporate social responsibility, corporate accountability and base of the pyramid, creative capitalism or inclusive business models into core business strategies and risk management; the growth in venture philanthropy; the evolution of socially responsible investment and impact investing; and greater integration of social and environmental risks into financial analysis.

Large Corporations

The report focuses on three key modalities of engagement where large companies can have a meaningful impact in supporting development and poverty alleviation:⁶

- Leveraging core business operations and value chains
- Enhancing corporate philanthropy, volunteering and community social investment
- Participating in public policy dialogue, advocacy and institution building.

Leveraging core business operations and value chains:

By far and away the most sustained contribution that any company can make to economic growth and poverty alleviation is through carrying out its core business activities and investments in a productive, responsible and inclusive manner. The report argues that companies should first consider ways to better **measure and optimize the development impacts and multipliers that arise through existing business operations**. These include local job creation, production of safe and reliable goods and services, generation of investment income and taxes, investment in training and human capital development, local enterprise development, technology transfer, sharing of global business standards and practices, and building of physical and institutional infrastructure.

Second, large companies can **actively promote responsible business standards and accountability**. In addition to complying with national and international law and regulations, companies can systemically identify, minimize and account for any negative impacts on development that may arise from their core business operations. They can do this by supporting voluntary principles, codes and standards in areas such as human rights, labor, the environment and anti-corruption, they can spread good practices in these areas along their global supply chains, engage more transparently and systematically with key stakeholders, and report publicly on the company's environmental, social and governance performance.

Third, large companies can **innovate to serve the poor through their commercial business models** by explicitly and intentionally harness their core competencies and assets in ways that directly include or serve the poor and/or address environmental and other sustainability challenges while also generating a profit. The report looks at emerging good practices in the following areas: developing direct business linkages with small and micro-enterprises along corporate supply, distribution and retail chains; gearing product development and delivery to meet essential consumption needs; sharing intermediary platforms and networks to expand the scale and reach of inclusive business models; investing in pro-poor science and technology research; converging solutions to poverty alleviation and climate change; and harnessing consumer spending in wealthy markets through initiatives such as fair trade, cause-related marketing and consumer awareness campaigns.

Enhancing corporate philanthropy, volunteering and community social investment:

In addition to what companies can contribute through their mainstream business activities and value chains, they can also harness their core competencies and assets in non-commercial yet strategically aligned ways through a variety of philanthropic, employee volunteering and community engagement activities. While such initiatives rarely achieve the scale that a commercial model can reach, some of the examples profiled in the report have served millions of people and spanned over a hundred countries illustrating the potential for scale and impact through strategic philanthropy.

The report focuses on examples of how companies can leverage the impact of their philanthropic activities in the following areas: aligning core competencies with specific development goals; mobilizing skilled volunteers for development projects; crowd-sourcing solutions through online platforms; seed-funding innovation and entrepreneurship; strengthening the capacity of local leaders and institutions; connecting humanitarian relief with long-term recovery and resilience; funding research and public awareness for development.

Participating in public policy dialogue, advocacy and institution building:

Corporations, especially the largest players in an economy also have political influence and voice. While there is a long tradition of individual and collective corporate lobbying around direct business interests, a small vanguard of companies is starting to advocate for better business climates not only for their own business or industry, but also for addressing key development and sustainability issues. The report reviews some of the models that companies are using in the following areas: tackling corruption and promoting good governance; strengthening public institutions and administrative capacity; contributing to national development plans and poverty alleviation strategies; and advocating for pro-development policy reforms in both donor countries and developing countries.

High-Impact Entrepreneurs

Throughout history, entrepreneurship has been one of the driving forces of innovation, wealth creation and social transformation in every successful economy. Yet, until relatively recently, targeted recognition of and support for ‘high-impact’ entrepreneurs and the systems that nurture them has been missing in most international development programs and developing country poverty alleviation strategies.

These ‘high-impact’ entrepreneurs are individual ‘change-agents’ and innovators who are either commercial or social entrepreneurs and who either lead their own enterprises or play leadership roles within larger corporations and networks. They share the ability to grow enterprises and create value, spur innovation in products, services, technologies and business models, and cross traditional boundaries. In many cases they play a vital intermediation role between the poor and the formal markets. The leaders among them aim for and help to achieve systemic transformation.

The report focuses on the following three groups of high-impact entrepreneurs who have a particularly important role to play in driving poverty alleviation and more sustainable development:

- **Local ‘opportunity’ entrepreneurs:** These include established entrepreneurs as well as high-potential start-ups that have created commercially viable for-profit enterprises, but also have a commitment to support development goals. The report briefly reviews the growing focus on supporting women entrepreneurs and youth entrepreneurs.⁷
- **Social entrepreneurs:** These are entrepreneurs who have an explicit social or environmental mission and who use innovative, often market-based approaches to achieve impact and scale. They assume a variety of legal and operational models from enterprising nonprofit entities that have a self-financing component to for-profit social businesses and hybrid models.⁸
- **Social intrapreneurs:** These are individuals working within large companies or development institutions who are catalyzing, starting and/or scaling inclusive business models, innovative new approaches and partnerships to support poverty alleviation.⁹

Private Financiers

The third group the report focuses on is private financiers – institutional investors, banks, insurance companies, private equity firms, angel investors and for-profit and non-profit financial intermediaries. A key trend driving private financing for development is the evolving field of what is variously termed impact investing, sustainability banking, socially responsible investment or blended value capital – the allocation of capital in a manner that explicitly aims to generate social and/or environmental benefits in addition to financial returns.¹⁰ The report focuses on four categories of financial services and intermediation where private financiers can play an important role in alleviating poverty and supporting other development goals:

- **Delivering microfinance services to the poor:** This includes savings, loans, insurance and money transfers. The transformational convergence between information technologies and financial intermediation is facilitating new approaches that offer scalable, market-based solutions to deliver these products and services to the poor.
- **Investing in small and growing businesses:** The report provides an overview of recent developments and innovations in helping small and growing businesses to improve access to growth capital and technical assistance.

- ***Scaling emerging market champions:*** The report illustrates some examples of how private equity firms and other investors are enabling domestic business champions in developing countries to scale and in some cases to become regional and global players and outlines some of the key trends in this area.
- ***Leveraging additional private finance for development:*** The report looks at some of the other ways in which private finance is being mobilizing for development through models that make it easier for individual investors and donors to get engaged; through improving the environmental, social and governance performance of private financial institutions that are operating in developing countries; and through new models to mobilize private funds for financing global public goods such as global health and climate mitigation and adaptation.

PART THREE: Other development actors can catalyze and greatly enhance the contribution of the private sector to development – in particular, governments, bilateral and multilateral donors, philanthropic foundations, non-governmental organizations and academic and research institutions

Part Three of the report looks at the roles of other development actors in helping to overcome barriers to inclusive business and markets with a focus the following areas of engagement:

- Working directly with the poor to enhance their capacity and voice as producers, employees and consumers
- Working directly with private sector companies, entrepreneurs and financiers to start and scale inclusive business models
- Convening and coordinating private enterprises and other development actors to achieve scale
- Improving the broader enabling environment for more inclusive private sector development.

PART FOUR: New models of collaboration are required to scale and sustain impact. These range from firm-level partnerships to business leadership coalitions and systemic multi-stakeholder alliances

Part Four of the report briefly reviews the dynamic interaction between private sector competition and collaboration as drivers for achieving scale and impact in tackling development challenges. It then focuses on different models of collaboration with a particular focus on multi-stakeholder initiatives where groups of companies work collectively with each other and where groups of companies work with other development actors.

The report provides examples of multi-stakeholder alliances in the following key areas:

- ***Making value chains more inclusive and sustainable*** – sector-based alliances that aim to make value chains more inclusive and sustainable in key sectors, with a focus on three types of value chain that are especially significant in tackling poverty – food and agriculture; health; and financial services for the poor.
- ***Implementing national and regional development priorities*** – geographically focused alliances such as clusters and corridors that aim to catalyze private investment and growth and to support integrated approaches to development in particular locations – local, national and regional.

- *Enhancing the effectiveness of humanitarian and social programs* – alliances that aim to ensure that philanthropic dollars, product donations and social investments are leveraged effectively.
- *Improving mutual accountability and transparency* – usually industry-focused global alliances aimed at improving corporate accountability for social and environmental impacts in developing countries.
- *Advocating for policy reform* – cross-sector alliances between corporate leaders and non-governmental organizations can be effective in advocating for policy reform and encouraging targeted policy innovations both within donor governments and in developing country governments.

If effective, these systemic multi-stakeholder alliances can enable their participants to aggregate their resources, market power or political voice to achieve greater leverage, legitimacy and impact than any one actor or sector working alone. They are not a panacea and they are not easy to establish or sustain. Yet they represent a crucial area of innovation in both business and development.

PART FIVE: Recommendations for joint action

The report concludes with recommendations for collaborative action to help start and scale more inclusive and sustainable business models. As outlined in the summary box, the recommendations focus on the following six areas:

- Assessing and promoting empirical evidence
- Building capacity and knowledge
- Creating innovative financing instruments and mechanisms
- Establishing or strengthening market intermediaries and platforms
- Supporting multi-stakeholder alliances
- Advocating jointly for policy innovation.

The report concludes that market-based solutions are not a panacea. In some cases they are neither relevant nor appropriate. Yet, there is growing evidence that inclusive business and markets can play a crucial role in poverty alleviation. They can unleash the immense potential of scientific, technological and process innovation to tackle social and environmental problems. They can increase the cost effectiveness of each development dollar spent and enhance the sustainability of certain development interventions, allowing governments, foundations and non-governmental organizations to exit where appropriate. And through harnessing competitive market forces and/or collaboration they can accelerate the scaling of successful development solutions.

Collaborative efforts and multi-stakeholder alliances between the private, public and civil society sectors can be especially important in helping to make these market-based solutions more inclusive. There are enough emerging examples of the potential of these collaborative models to warrant ongoing analysis, investment and support by all key development and private sector actors. Many of these models offer fundamentally new approaches to business and development. In doing so, they also offer some of our greatest opportunities yet of enabling several billion people to lift themselves out of poverty.

SUMMARY OF KEY MESSAGES AND RECOMMENDATIONS

The report offers four key messages:

- 1) **Inclusive business and markets have a vital role to play in alleviating poverty and achieving other development goals.**
- 2) **Proactive leadership from the private sector is essential, especially from large corporations, high-impact commercial and social entrepreneurs, and private financiers.**
- 3) **Other development actors can catalyze and greatly enhance the contribution of the private sector – in particular governments, bilateral and multilateral donors, philanthropic foundations, academic and research institutions, and non-governmental organizations.**
- 4) **New models of collaboration are required to scale and sustain impact. These range from firm-level partnerships to business leadership coalitions and systemic multi-stakeholder alliances.**

The report makes recommendations in the following six areas where collaborative leadership, or at a minimum more coordinated interventions, will be especially important:

1 Assess and promote empirical evidence More collaborative research efforts are needed to: improve market

research and information about the poor as economic actors; understand and disseminate the lessons of starting and scaling inclusive business models in different industries; measure the financial, social and environmental performance of these models; and assess the overall 'development footprint' or multipliers of large corporations.

2 Build capacity and knowledge Collaborative efforts are required to build skills, capacity and knowledge both within the corporate sector and for the poor as producers, employees and consumers. They can be especially helpful in enabling low-income communities to be better organized to participate in formal markets and value chains on a collective basis.

3 Create innovative financial instruments Blended value or hybrid financing is often required to fund inclusive business models. This combines different types and sources of capital with different investment horizons and performance requirements – what is increasingly termed 'impact investing'. Interesting collaborative models are emerging in the following areas and need to be pursued: challenge, innovation or replication funds; joint capacity-building facilities for intermediary organizations; and global funds and public-private partnerships especially in the areas of health, food security, education and climate change.

Individual companies can also create internal innovation or social venture funds. Philanthropic foundations can make more effective use of their balance sheets through program related investing. Investors can establish targeted investment vehicles and public sector donors their own dedicated facilities to fund inclusive business models.

4 Establish or strengthen market intermediaries and platforms In many successful examples of making markets work for the poor there are intermediary organizations or networks that play a vital role in some or all of the following: identifying and brokering partnerships; mobilizing and allocating resources; managing communications and conflict resolution; monitoring performance; spreading lessons, good practices and market information; and ensuring a joint advocacy voice. These intermediaries range from producer associations, microfinance intermediaries, small enterprise support centers, and community-based organizations, to business leadership coalitions and online networks and databases. Their roles need to be better understood and supported.

5 Support multi-stakeholder alliances Alliances that bring together large numbers of actors can drive systemic change and transformation. They can help to make specific value chains more inclusive and sustainable, implement national or regional development priorities, enhance the effectiveness of humanitarian assistance, and improve mutual accountability for development outcomes. They are an evolving model that warrants ongoing assessment and support by both the private sector and other development actors.

6 Advocate jointly for policy innovation Governments in developing countries can create incentives or requirements for large companies to develop inclusive business models and to make it easier for social enterprises and new investment vehicles to operate. In donor countries governments can employ a variety of incentives and tools to encourage their own private sectors to get more directly engaged in global development through a combination of trade, investment and global philanthropy and volunteering programs.

PART ONE



The Role of Inclusive Business and Markets in Poverty Alleviation

The following section outlines the importance of inclusive business and markets for the poor and some of the challenges of building such markets and engaging private enterprises.

I. THE ROLE OF THE PRIVATE SECTOR

II. DEFINING INCLUSIVE BUSINESS AND MARKETS

III. PATHWAYS OUT OF POVERTY

IV. THE CHALLENGES OF BUILDING INCLUSIVE BUSINESS AND MARKETS



Large companies are a vital part of the private economy, but the poor are an equally important part. They are often entrepreneurs themselves – frequently of necessity, operating informally, trapped in subscale enterprises. We endorse the view that market-oriented business ecosystems comprise many forms of private enterprise coexisting in a symbiotic relationship. The ecosystem generally includes multinational corporations, large domestic companies, cooperatives, small and medium enterprises and micro-enterprises, with formal and informal players. It thus encompasses the farmer in the field as much as the multinational company.

Unleashing Entrepreneurship: Making Business Work for the Poor
Report of the United Nations Commission on the Private Sector and Development
2004

Poverty reduction and sustainable development remain core global priorities. A quarter of the population of developing countries still lives on less than \$1.25 a day. One billion people lack clean drinking water; 1.6 billion, electricity; and 3 billion, inadequate sanitation. A quarter of all developing-country children are malnourished. Addressing these needs must remain the priorities both of developing countries and of development aid – recognizing that development will get harder, not easier, with climate change.

World Development Report 2010: Development and Climate Change
The World Bank
2009



I. THE ROLE OF THE PRIVATE SECTOR

Over the past two decades consensus has grown within the development community that markets and market-based solutions, led or supported by the private sector, have vital roles to play in increasing opportunities for people in the developing world to lift themselves out of poverty. This emerging consensus is unlikely to be reversed.

A number of transformative shifts are underway in the global development landscape. These make it both imperative and possible, perhaps for the first time, to experiment with a variety of different business models, development interventions and new collaborative approaches aimed at achieving systemic change. Several trends are especially worthy of note and relevant to the role of markets and the private sector.

1. Trends in global development

(i) The complexity and interdependence of development challenges

The global financial crisis, volatility in food, fuel and other commodity prices, fundamental demographic shifts, ongoing conflict and state fragility in some countries and the early impacts of climate change in others, combine to make poverty alleviation an economic and security imperative, as well as a humanitarian and moral one. These challenges can no longer be tackled in isolation to each other. They force us to think more systemically about how to build positive links between job creation, income generation, access to essential products and services, ecosystem sustainability, and individual and institutional capacity development. There is also growing recognition of the inter-relationship between energy, food, water, health, and climate change.

Tackling these issues in a more integrated manner requires new resources, skills and competencies. No one government or indeed sector has sufficient resources and capacity to address them alone. New types of cooperation between governments, civil society organizations and the private sector are needed. In some cases these alliances will be market-oriented and in others they will draw on the philanthropic resources or political influence of private enterprises. Some will involve new financing or operating models, while others will result in totally new institutions. There will also be a need for more performance-driven approaches and greater accountability for development outcomes on the part of both public and private actors.

(ii) The search for new approaches by governments

Good governance is more essential than ever. Governments must take the lead in addressing the interdependent imperatives of economic renewal, job creation and poverty alleviation, climate change and low-carbon growth, and political stability and security. Yet, while government leadership is necessary, it is not sufficient. Both domestically and globally governments are looking for new ways to leverage public finances and to achieve greater synergy and effectiveness in tackling the complex mix of national and global challenges. Few of these challenges can be tackled without the active engagement of the private sector and other non-state actors.

In terms of global development, there is a growing emphasis on ‘country ownership’ of development solutions, recognizing the essential foundations of rule of law, accountability and transparency, effective institutions and strong leadership within developing country governments. Traditional

Box 1: MILLENNIUM DEVELOPMENT GOALS

1 ERADICATE EXTREME
POVERTY & HUNGER

2 ACHIEVE UNIVERSAL
PRIMARY EDUCATION

3 PROMOTE GENDER
EQUALITY AND
EMPOWER WOMEN

4 REDUCE CHILD
MORTALITY

5 IMPROVE MATERNAL
HEALTH

6 COMBAT HIV/AIDS,
MALARIA AND OTHER
DISEASES

7 ENSURE
ENVIRONMENTAL
SUSTAINABILITY

8 DEVELOP A GLOBAL
PARTNERSHIP FOR
DEVELOPMENT

donor governments are increasingly focused on aid effectiveness, strengthening the links between aid, trade and investment, and improving global governance. New donors from emerging or re-emerging economic powers such as China, India, Turkey, South Korea, Brazil and parts of the Middle East are driving a substantial increase in south-south cooperation with a focus on infrastructure, private sector development and economic growth. Sovereign wealth funds and public pension funds are also becoming influential investors in some developing countries. In almost every case, these public sector entities are exploring ways to work with the private sector, attract resources from the private sector, invest in the private sector and/or support private sector development more broadly.

The Millennium Declaration in 2000 led to an unprecedented global commitment by world leaders to meet eight quantitative and time-bound Millennium Development Goals (MDGs) by 2015. These are summarized in Box 1. The MDGs provided for the first time a common framework and set of globally agreed – and measurable – targets against which to assess progress on poverty alleviation. Although created by governments and for governments, they have been a useful platform for engaging non-state actors, including companies in the development agenda, along with the United Nations Global Compact (see Appendix 1).

UN Secretary-General Ban Ki-moon states, “The MDGs have sparked a remarkable, global mobilization. Rarely have so many organizations – from the global to the grassroots – agreed on a common agenda. Rarely have so many individuals – citizens and CEOs, philanthropists and political leaders – found such common ground. We must realize the great potential of this global movement.”¹

Measurable progress has been made on achieving the MDGs, but it has been uneven. Major gaps still exist in realizing specific MDGs or meeting them in specific countries and population groups. These gaps are due to a combination of inadequate resources, the global food and financial crises, the evolving impact of climate change, lack of focus and accountability, and in some cases conflict and fragile states. As 2015 approaches, governments are calling more explicitly on the private sector to play an active partnership role in meeting the MDGs. In 2010, a group of bilateral development agencies signed a joint ‘Bilateral Donors’ Statement in Support of Private Sector Partnerships for Development’, which outlines their commitment to work with the private sector to meet the MDGs and summarizes specific areas for action.² (See Appendix 2).

Over the coming decade governments will have to mobilize billions of additional dollars for climate mitigation and adaptation needs in developing countries, over and above existing development goals. This will mean that harnessing markets and private sector capital, expertise and technology innovation will become even more important.

(iii) The rising prominence of non-state actors

Non-state actors are spearheading a transformation in commercial business models and nonprofit service delivery to serve the poor. Many are based within developing countries. Others are driving the growth in cross-border private resource flows that are going to developing countries. These non-state actors are being enabled by a combination of market liberalization, new technologies and new sources of finance. They include corporations, small, medium and micro-enterprises, private financiers, philanthropic foundations, faith-based networks, social entrepreneurs, non-governmental organizations, high-profile individuals, the general public, and diasporas sending remittances to their home countries and communities.

These non-state actors are injecting a strong dose of dynamism, diversity and innovation into the development community. They are leveraging new technologies and developing innovative new financial instruments and capital allocation strategies to reach the poor and to invest in green growth. They are cooperating with each other and with government entities to create new development models and institutions. Some are demanding new approaches to accountability and transparency for development outcomes. Others, especially large corporations, are the targets of efforts to improve accountability.

The activities of these non-state actors range in scale from multi-million dollar transnational initiatives to millions of low budget community-based efforts, and from multi-stakeholder coalitions to individual citizen action. Their motivations range from philanthropic contributions to the generation of profit. And from responding to immediate humanitarian needs and stakeholder expectations to investing in long-term development.³

In terms of cross-border capital flows, private actors are now mobilizing more financial and in-kind resources for global development than donor governments. The Hudson Institute estimates that, “Seventy-five percent of all DAC donors’ [OECD’s Development Assistance Committee consisting of 23 donor countries] total economic engagement with the developing world is through private financial flows – philanthropy, remittances and private capital investment.”⁴

From the perspective of the business sector, developing countries are becoming an important source of new market and investment opportunities for many private firms and industry sectors. According to UNCTAD, half of global Foreign Direct Investment (FDI) inflows are now going to developing and transition economies. While the global economic crisis resulted in large declines in both FDI and portfolio investments into developing countries, *The World Investment Report 2010* notes: “FDI inflows to developing and transition economies declined by 27 percent to US\$548 billion in 2009, following six years of uninterrupted growth. While their FDI contracted, this grouping appeared more resilient to the crisis than developed countries, as their decline was smaller than that for developed countries (44 percent). Their share in global FDI flows kept rising: for the first time ever, developing and transition economies are now absorbing half of global FDI flows.”⁵

South-south private capital flows between developing countries are also on the rise. An important trend in the past decade has been the number of corporations from developing countries that are growing dramatically in their domestic markets and driving greater south-south and regional investment. UNCTAD estimates that there were 82,000 transnational corporations (TNCs)

worldwide in 2008. Some 28 percent of these TNCs came from developing and transition economies, compared to less than 10 percent in 1992.⁶ UNCTAD notes that other rankings, such as those of the *Financial Times* and *Fortune* magazine, point to an even larger percentage of developing and transition economy TNCs entering the global stage. They are especially active in sectors such as agriculture, infrastructure, mobile telecommunications, banking, retail, and natural resources. All of these sectors have important implications for poverty alleviation, potentially positive or negative depending on how investments projects are implemented.

Another set of trends over the past decade has been the growing momentum in fields such as corporate social responsibility, responsible investment, inclusive business, microfinance, social entrepreneurship, venture philanthropy and impact investing. These emerging concepts and fields of practice have changed the way that many private enterprises understand and address development issues. They have also changed the manner in which private enterprises are perceived by and interact with other development players, both governments and other non-state organizations. On the one hand, they have increased the risks and costs associated with a company having, or being perceived to have, a negative impact on development. On the other hand, they have created new opportunities for private enterprises that can deliver solutions that align business value with development impact.

(iv) Growing recognition of the need to more directly listen to, learn from and engage with the poor themselves in finding solutions

Until recently, remarkably little empirical research had been undertaken to understand the poor as economic actors and to consult them at scale about their needs, aspirations, capacities, constraints, and resource management strategies. Today, much more is known about how they manage their very limited budgets and assets within the difficult contexts in which they live. More proactive and systematic initiatives are being undertaken to directly engage them as producers, employees, consumers and active participants in the design, implementation and monitoring of development interventions. This is needed not only at the community and project level but also at the governance and policy level to enable them to enter formal markets. There is also a growing focus on improving legal rights and empowerment for the poor. This has been influenced by the work of the *UN Commission on Legal Empowerment of the Poor*, which highlighted the following four areas in its final report in 2008: Access to justice and rule of law; property rights; labor rights; business rights (legal mechanisms to empower informal businesses).⁷ Renewed efforts are also being made to support low-income producers, employees and consumers to organize or aggregate in order to gain greater economic capacity and clout, as well as a stronger political voice.

There is also growing recognition of the development benefits of investing in the economic empowerment of girls and women. As Isabel Coleman from the Council on Foreign Relations outlines, “Over the last several decades, it has become accepted wisdom that improving the status of women is one of the most critical levers of international development. When women are educated and can earn and control income, a number of good results follow: infant mortality declines, child health and nutrition improve, agricultural productivity rises, population growth slows, economies expand, and cycles of poverty are broken. But the challenges remain dauntingly large. In the Middle East, South Asia, and sub-Saharan Africa, in particular, large and persistent gender gaps in access to

education, health care, technology, and income – plus a lack of basic rights and pervasive violence against women – keep women from being fully productive members of society.”⁸

(v) The transformative impact of scientific research and innovative new technologies

Innovation, especially emerging technologies – from information and communications technology to life sciences, biotechnology, nanotechnology and clean technology – is fundamentally changing the economics of what is viable and scalable in tackling poverty. The ability of the poor to integrate into formal markets and the growing reach and influence of non-state actors has been underpinned by and is also driving unprecedented mobile communications capacity and other enabling technologies and applications in the fields of finance, healthcare, agriculture, water, energy, climate adaptation, education and disaster response.

Innovations range from tiny mobile phone kiosks in remote rural communities to large-scale investments in more climate resilient infrastructure in rapidly urbanizing locations. They include more nuanced and integrated approaches to harnessing and combining different types of technology. These technologies range from traditional, conventional and intermediate technologies to the ‘high-tech’ new platforms based on advanced sciences. This more integrated approach reflects a move away from the mindset that technology for the poor always needs to be basic. It recognizes that basic or traditional technologies are most effective in certain cases, but also opens up the immense potential of applying world class, high tech solutions to poverty alleviation.⁹

The private sector is often essential in developing and scaling new technologies. In many cases, however, market failures and regulatory gaps make it necessary for governments and other non-state actors to work with the private sector in discovering, developing and delivering technologies that directly serve the poor and help to solve development challenges. In addition to new models of collaboration between private and public actors on specific technologies and value chains, there is also renewed focus on improving the broader enabling environment for science and technology research and development within developing countries.

In summary, the complexity and interdependence of global challenges, the search for new solutions by governments, the rising prominence of non-state actors, improved understanding of the poor as economic actors, and the transformative impact of science and technology all underpin the growing interest in market-based solutions and the role of the private sector in development. New models of development are being explored that harness the power of markets and that mobilize the resources, expertise, networks and ingenuity of private corporations, entrepreneurs and financiers. A central challenge is to make markets and private enterprises work more effectively for the poor by ensuring they are not only efficient and competitive, but also more inclusive and collaborative.

I. THE ROLE OF THE PRIVATE SECTOR

2. Key private sector actors

The private sector covers a wide range of diverse actors from smallholder farmers and micro-enterprises, to small and medium-size firms and large domestic and multinational corporations. It ranges from firms and financiers driven by the motive to maximize profits to social businesses, social enterprises and impact investors that employ market-based approaches with explicit social and/or environmental objectives. And it includes business associations, enterprise networks, producer cooperatives and business leadership coalitions.

There is growing recognition of the important role that business plays in tackling poverty and creating wealth in developing countries and low-income households and communities. The World Bank concluded in its seminal *World Development Report 2005: A Better Investment Climate for Everyone*:

“Private firms are at the heart of the development process. Driven by the quest for profits, firms of all types – from farmers and micro-entrepreneurs to local manufacturing companies and multinational enterprises – invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity. They provide more than 90 percent of jobs – creating opportunities for people to apply their talents and improve their situations. They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction.”¹⁰

Over the past decade a number of commissions on global development have called for increased private sector development and business leadership as a major priority. They include the 2009 report of *The Africa Commission*, initiated by the Danish Government, the 2009 *Transatlantic Taskforce on Development*, led by the German Marshall Fund, the 2007 *HELP Commission Report on Foreign Assistance Reform in the United States*, the 2005 *Commission for Africa* report supported by the United Kingdom, and the United Nations *Commission on the Private Sector and Development*, which reported in 2004.¹¹ Indeed, there are few governments and development agencies today that do not espouse the importance of private sector development.

Small and medium-size enterprises, employing less than 250 people are the main drivers of job creation and growth, accounting for over 90 percent of businesses worldwide.¹² In many developing countries, due to well-documented market failures and governance gaps, up to 80 percent of these enterprises operate in the informal economy.¹³ As such, they are often unable to benefit from the opportunities and protection that the law provides, and they have minimal economic resources, bargaining power or political voice to influence policy and market outcomes. One of the most important actions that governments, donors, larger private sector actors and nonprofit organizations can take is to enable these enterprises to grow and to enter the formal economy. In addition to the important focus on micro-enterprise that has gathered momentum over the past decade, there is a vital need to catalyze the so-called ‘missing middle’ of small and medium-sized firms that operate between micro-enterprises and large companies. The group that is essential to building a middle class.

This report focuses on large corporations, high-impact entrepreneurs and private financiers as three groups of private sector actor that can play an essential catalytic and scaling role in poverty alleviation and development. It also reviews the role of business associations and business leadership coalitions.

In the case of large corporations, there is increased understanding in both the development community and the business sector of the important development role played by a company's core business operations. Corporate philanthropy and community engagement can play a valuable catalytic and humanitarian role, but the greatest and most sustainable impact that companies can have on poverty alleviation is through leveraging core business models, competencies and value chains.

In their 1996 report *Business as Partners in Development*, the International Business Leaders Forum, World Bank and UNDP stated, "The principal contribution of business to development is through the efficient and ethical pursuit of its core business activities. It can however maximize the beneficial spin-offs and multipliers of these activities – especially through promoting local economic participation and sharing core competencies and business practices with host countries and communities."¹⁴ Today, such an approach is needed more than ever.

Clearly not all private sector development is beneficial to the poor. Some is exploitative and detrimental and needs to be strongly regulated or prohibited. Much fails to have a substantial or sustained effect that enables people to lift themselves out of poverty. Research on the development benefits of FDI shows a mixed record, with marked variations between different industry sectors, home countries and host country governance environments. Private sector projects that do directly serve the poor are often small-scale in reach and impact, and primarily philanthropic in nature. As outlined in Part Two of the report, much can be done by companies to address these challenges by optimizing positive development multipliers from their regular business operations, minimizing negative impacts and proactively innovating to include the poor.

Foreign and domestic corporations that operate in sectors and value chains that are essential to economic growth and poverty alleviation – either in terms of directly supporting it or potentially undermining it – have an especially important role to play. These include companies in infrastructure, energy, water and sanitation, oil, gas and mining, agriculture and forestry, healthcare and nutrition, financial services, information and communications technology, professional services, and tourism.

The *explicit* creation of inclusive business models can result in a more direct and sustained impact on poverty by intentionally including the poor in formal value chains. Such approaches can help low-income producers, employees and consumers to expand their access to employment and livelihood opportunities and to affordable and reliable products and services. In turn, this can enable them to build their capacity, their assets and their resilience – all of which are essential pathways out of poverty.

In recent years a diverse group of development practitioners, donors, business leaders, social entrepreneurs, investors, foundations and academics has recognized this potential. They are exploring a range of approaches to ensure that private sector development is explicitly pro-poor, either engaging directly with the poor in beneficial ways, or ensuring that it does not exacerbate poverty for those

living at the base of economic pyramid. Working with a pioneering group of large corporations, smaller commercial and social enterprises, and private financial institutions, these leaders are spearheading a growing movement to better understand and leverage the role of business in global development. They are starting and in some cases scaling innovative new business models that intentionally and explicitly include the poor as producers, customers and suppliers. And they are developing new technologies to drive low-carbon growth and greater efficiency in the use of essential resources. These include water, energy, biodiversity and ecosystems services, all of which are often vital to supporting sustained livelihoods for the rural poor.

Such efforts aim to achieve a more immediate impact on poverty than the ‘trickle-down’ effects of more traditional private sector development initiatives. Many of them directly leverage scientific, technological, financial, product or process innovation to tackle poverty. They harness core private sector competencies, business models and value chains to explicitly expand access to goods, services and livelihood opportunities for the poor and to respect their human rights. They also look at ways to improve the resilience of low-income households and communities and their ability to cope with economic and environmental shocks.

These approaches are variously described as sustainable business, corporate social responsibility, base-of-the pyramid models, creative capitalism, shared value, social enterprise, social business, impact investing, market-based solutions and inclusive business. Regardless of the different terms used, they all share the common goal of harnessing the resources and core competencies of private enterprise in a manner that simultaneously creates both business value and development impact.

This report primarily uses the terms inclusive business and inclusive markets. It focuses on how these approaches apply to and are led by large corporations, high-impact entrepreneurs (both commercial and social entrepreneurs), and private financiers. It looks at different models of private sector engagement both through competitive individual business models, value chains and business-to-business linkages, and through collaboration with other companies and development actors from government and civil society.

II. DEFINING INCLUSIVE BUSINESS AND INCLUSIVE MARKETS

1. Inclusive business

The term “inclusive business” has been developed and promoted by, among others, the World Business Council for Sustainable Development (WBCSD) and the United Nations Development Programme (UNDP).

WBCSD is a leadership group of some 200 major international companies drawn from over 35 countries and 20 industrial sectors, with a network of nearly 60 national and regional business councils reaching hundreds of additional private enterprises, many of them in developing countries. Its members reach an estimated 50 percent of the world’s population every day with a product or a service, and have a combined turnover of some US\$ 6 trillion. WBCSD defines inclusive business as follows:

“An inclusive business is one which seeks to contribute towards poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits.”¹⁵

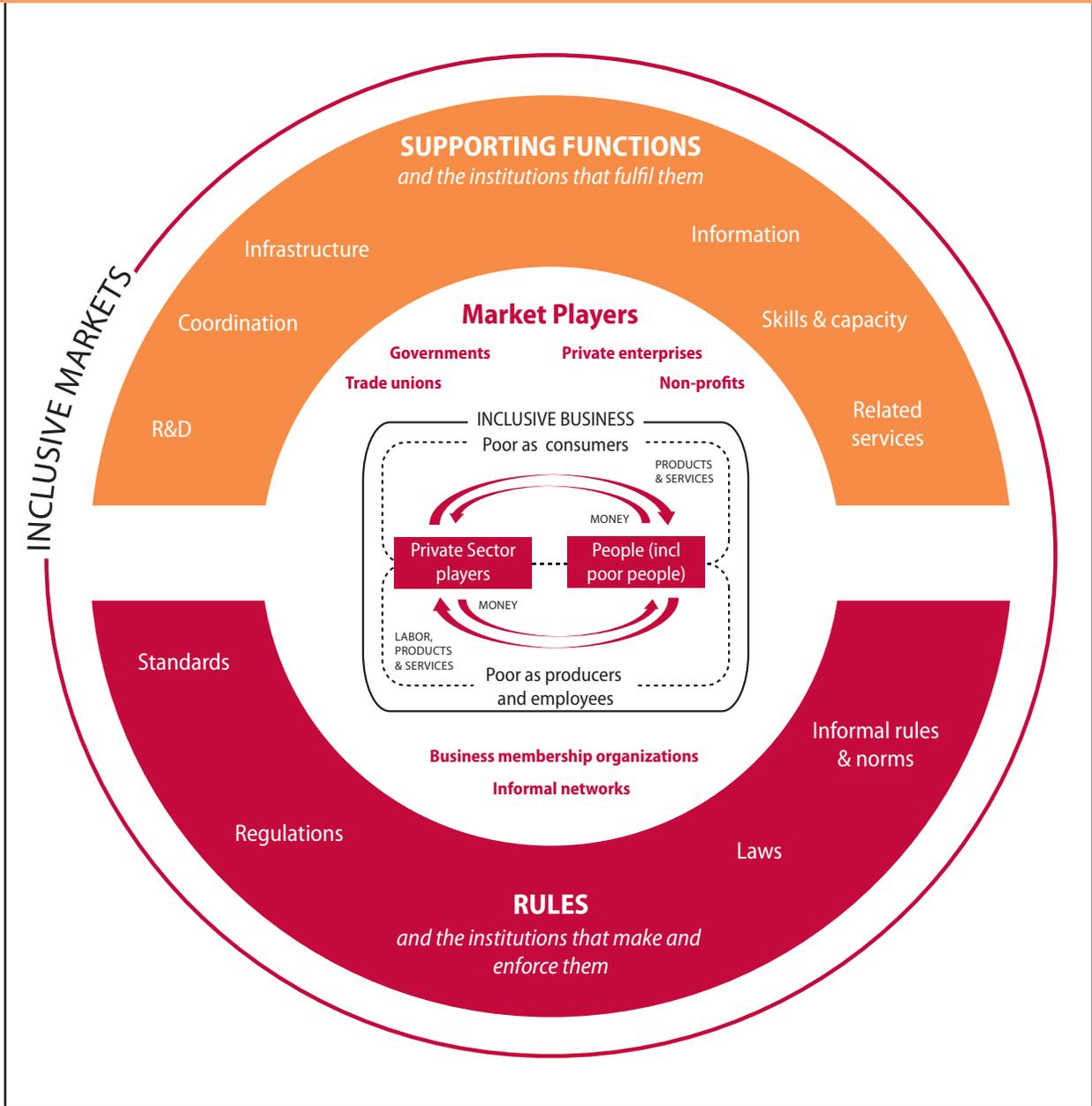
UNDP’s *Growing Inclusive Markets* initiative brings together some of the leading business networks, development agencies, academics and social enterprise intermediaries that are active in the field of business and development. UNDP also serves as the operational arm of the UN system with offices in over 100 countries. It is one of the core UN partners of the United Nations Global Compact, which over the past decade has become the largest corporate citizenship network in the world with over 6,000 participating companies, over two thirds of which are from developing countries and with a variety of national and local Global Compact networks in some 50 countries. UNDP defines inclusive business as follows:

“Inclusive business models include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit.”¹⁶

In their 2010 report *Scaling Up Inclusive Business*, the International Finance Corporate (IFC) and Harvard Kennedy School argue that, “Inclusive business is interesting for companies because it can offer new opportunities for innovation, growth, and competitiveness at the same time as positive social and development impact. It is interesting for bilateral and multilateral donors, foundations, governments, and civil society organizations because it has the potential to drive development impact in self-sustaining, self-multiplying ways that do not require continuous infusions of grant funding. And it is interesting for the poor because it brings greater access, choice, and opportunity in their lives and futures.”¹⁷

Dalberg Global Development Advisers and Monitor Inclusive Markets Institute both highlight the importance of individual enterprises (both large corporations and smaller commercial and social enterprises) as well as value chains, clusters or inter-firm linkages as being essential components of most inclusive business models.¹⁸

BOX 2: A framework for inclusive business and markets



Source: Adapted from DFID and SDC (2009). "A Synthesis of the Making Markets Work for the Poor (M4P) Approach." Page 28.

II. DEFINING INCLUSIVE BUSINESS AND INCLUSIVE MARKETS

2. Inclusive markets

Inclusive business models and value chains don't happen in a vacuum. Private sector players must have the capacity and incentives to develop and operate inclusive business models. Similarly, the poor must have the capacity and incentives to participate in them. And both sides must be able to protect their rights in the transaction. Enabling environments are therefore required. Such enabling environments are increasingly labeled “inclusive markets” or “inclusive market systems”.

The UK Department for International Development (DFID) and Swiss Agency for Development and Cooperation (SDC) have supported the development of an initiative called *Making Markets Work for the Poor* (M4P). This initiative has supported academic and field-based research, sector and country challenge funds, and the creation of a number of intermediary institutions to build and strengthen inclusive markets in Asia and Africa.

DFID and SDC make the following comments about inclusive markets:

“Economic growth (the most important contributor to poverty reduction) and expanded access are critical factors in developing competitive and inclusive economies. These, in turn, require: Markets for goods, services and commodities that operate effectively for everyone but especially the poor as consumers, producers or employees; and basic services – for example such as education, health and water – that can build people's capacities to escape poverty. Markets and basic services are traditionally regarded as very different. The first is seen as being commercial and the domain of private providers and the second primarily the domain of government. ...However, recent trends and major changes in economic thinking have allowed a more nuanced and realistic view to emerge, which recognizes that they have common characteristics. Both are multi-functional; they require a mixture of different functions to be undertaken such as regulation, information and delivery. Both are multi-player; they require a range of public and private players. In both, appropriate incentives and capacities are central to success. The term market system describes these shared features of markets and basic services and provides a common lens through which both can be viewed.”¹⁹

Thus, according to DFID and SDC, “markets operating in an inclusive way offer the poor the things they need – jobs, opportunities, goods, services – to increase their incomes.” Inclusive business models and value chains are one ingredient, but equally critical are the systemic factors that make inclusive business possible. These include rules, supporting functions, and the institutions behind them.

Rules influence the behavior of market participants, including private sector players and the poor. They can help provide incentives for inclusive business and shape inclusive business outcomes such that real value is created for all. As DFID and SDC emphasize, rules can take a variety of forms, ranging from formal (regulations) to informal (social and cultural norms). They can be established and enforced by a variety of players, from governments (laws) to private sector players themselves (industry standards).²⁰ Particularly important rules for creating inclusive markets include business

entry and exit requirements, property rights regimes, tax rates and incentive structures, labor laws, and international trade rules.

Supporting functions build the capacity of market participants – again including both private sector players and the poor – to engage in inclusive business. Supporting functions can include public goods (such as security) and basic services (such as education, healthcare, water and sanitation), which DFID defines as having an element of “public good” to them in that their consumption benefits both the individual and the economy and society of which he is a part.²¹ Public goods are generally the responsibilities of governments and public donors to provide, while basic services can also be provided through public-private partnership, philanthropy, or business. Some inclusive business models provide basic services – fulfilling support functions that help create the market conditions other inclusive business models need to succeed (at the same time as they meet basic development needs directly).

Effective and accountable institutions are needed to make and enforce rules as well as fulfill supporting functions. Relevant institutions include government ministries, courts, legislative bodies, chambers of commerce, credit bureaus, rating agencies, consumer advocacy groups, political parties, civil society and grassroots organizations, producer associations, development organizations and donors. Crucially, in order to create conducive market conditions not just for business but for inclusive business, those institutions must represent the specific needs and interests of the poor. This often requires special effort to seek out and listen to their voices and understand their needs, aspirations and constraints. Civil society organizations can play critical roles organizing and building the capacity of the poor to represent themselves vis-à-vis these institutions.

III. PATHWAYS OUT OF POVERTY

Having defined inclusive business and inclusive markets, why and how do they matter for the poor? Most development experts now agree that individual and household poverty is much more than a lack of adequate assets and income, although these are essential foundations for people being able to lift themselves out of poverty. It is the result of a combination of inter-dependent and often reinforcing economic, social, political, environmental and spatial factors and processes. In most cases individual and household poverty includes some combination of the following:²²

- **Lack of assets** in the form of human capital (such as education, skills and health), financial capital (such as savings and access to credit), physical capital (such as land, housing, infrastructure and equipment), natural capital (such as water, soil, biodiversity and other ecosystem services), and social capital (networks and relationships that can offer reciprocity and support).
- **Lack of affordable and reliable access to products and services that meet essential needs** such as water and sanitation, food, energy, health, education, housing, financial management, and transport.
- **Lack of economic integration** into local, regional and global markets needed to find employment, create an enterprise or gain affordable and equitable access to markets.
- **Lack of reliable information and capacity** to interpret and judge different options in terms of products, technologies and alternatives for consumption and employment.
- **Lack of legal rights and grievance mechanisms** in particular access to justice and the rule of law, property rights, labor rights, and business rights, identified by the UN's *Commission on Legal Empowerment of the Poor* as being the four crucial pillars in national and international efforts to give the poor both protection and opportunity.
- **Lack of voice and participation** in local or national political processes and decision-making that determine how policies and projects are designed and implemented and how they are made more transparent, responsive and accountable to the needs of the poor.
- **Lack of ability to organize and aggregate** as either producers, employees or consumers to take collective action that can increase bargaining power, increase ability to influence political and market outcomes, create economies of scale and enable more efficient connections to markets.
- **Lack of household security and resilience** due to insufficient social safety nets, insurance, social networks etc. to manage vulnerability from exposure to violence, conflict, natural disasters, crop failure and economic shocks.

Any efforts to alleviate poverty at scale and on a more sustained basis must address these challenges and do so in a more integrated and systemic manner. Building inclusive business models and markets that include the poor more fairly and effectively as producers, entrepreneurs, employees and consumers is an important approach to tackling a number of these challenges, although certainly not the only one.

People lift themselves and their families out of poverty in large part by participating in markets as producers, employees and consumers: earning income; gaining affordable access to essential goods and services and to productivity enhancing inputs; building assets; and being able to exercise choice and voice in determining their future. Regardless of whether these markets are local, national, regional or global or whether they are in mega-cities or rural villages, if they are efficient and inclusive they can play a crucial role in expanding the opportunity and access that are essential to alleviating poverty.

The poor need to be respected as economic actors and rational decision-makers who make the best decisions they can about how to manage their very limited budgets and assets within the contexts in which they live. They need to be empowered as producers, employees, and consumers able to access what they want and need on an affordable and reliable basis, not viewed as passive beneficiaries waiting for public sector handouts, philanthropic donations or corporate benevolence. They need to be proactively engaged as participants and decision-makers in the design, implementation and monitoring of development interventions. They need legal empowerment. They need support to organize or aggregate in order to gain greater economic capacity and clout, as well as a stronger political voice and social capital. Even in situations of humanitarian crisis, the poor need access to economic opportunity, not only social safety nets and charity as important as these are.

In short, as economist Hernando de Soto has stated, “The poor are not the problem, but the solution.”²³ And as the Acumen Fund argues, “Poor people seek dignity, not dependence. Traditional charity often meets immediate needs but too often fails to enable people to solve their own problems over the long term. Market-based approaches have the potential to grow when charitable dollars run out, and they must be a part of the solution to the big problem of poverty.”²⁴

1. Understanding the poor as producers, employees and consumers

Until recently, remarkably little empirical market research and analysis has been undertaken to consult the poor directly and more systematically about their needs, aspirations, capacities, constraints, ability to pay and resource management strategies as producers, employees, and consumers. As UNDP’s *Growing Inclusive Markets* initiative has commented, “Businesses know too little about the poor – what poor consumers prefer, what they can afford and what products and capabilities they have to offer as employees, producers and business owners.”²⁵ One could add to this that governments and donors also know too little about the poor as economic actors.

Some progress has been made in recent years to address this gap, building on many years experience in anthropological studies and participatory development approaches at the level of local communities and individual development projects. While a number of groundbreaking studies have been undertaken over the past decade, more work is needed in this area – especially research that can be shared in the public domain.

Seminal work focused on better understanding the poor as producers, employees and consumers includes: the World Bank’s *Voices of the Poor* and *Moving out of Poverty* studies; the work of the Jameel Poverty Action Lab at MIT; the initial research undertaken by C.K. Prahalad, Stu Hart, and Allen Hammond on framing the ‘Base of the Pyramid’ agenda and ongoing work through their respective academic institutions and think tanks in assessing market opportunities at the Base of the Pyramid; the IFC and World Resources Institute’s *The Next Four Billion* study (focused on market opportunities at the base of economic pyramid in the food, energy, health, housing, transportation, ICT and water sectors); the *Portfolios of the Poor* research (focused on financial management strategies of people living on less than US\$2 a day); heat map research undertaken by UNDP’s *Growing Inclusive Markets* initiative (focused on market opportunities in the areas of providing access to water,

credit, electricity and telephone service); the World Economic Forum and Boston Consulting Group reports on *The Next Billions* (which focused on strategies to enhance food value chains and empower the poor); Harvard Business School's book *Business Solutions for the Global Poor*; and Monitor's report *Emerging Markets, Emerging Models* (focused on market-based solutions mainly in India) and their ongoing work in Africa.²⁶

A number of these studies combine insights into understanding the poor as economic actors, as well as identifying specific strategies for developing inclusive business models and market-based solutions for meeting these needs. Despite obvious differences across cultures, countries and sectors, common themes and messages resonate through many of these studies. All point to the poor having significant unmet needs, lacking good access to markets to sell their labor, products and produce, and being negatively impacted by a 'poverty penalty' – "paying higher prices for basic goods and services than do wealthier consumers, either in cash or in the effort they must expend to obtain them – and they often receive lower quality as well."²⁷ They also point to self-employment or business and wage income as the key paths out of poverty.

In 2000, for example, the World Bank released a seminal study, *Voices of the Poor* – the first of its kind and scale based on interviews with some 60,000 people in 60 countries. The study consisted of two parts: a review of participatory poverty studies in 50 countries involving about 40,000 people and a new comparative study in 1999 in 23 countries engaging about 20,000 people. It found that, "next to illness and injury, the scope for entrepreneurial activity and the availability of jobs is the most important factor determining the fate of poor people – for better or for worse."²⁸

Deepa Narayan, lead author of *Voices of the Poor* and a 2009 follow-up study, *Moving Out of Poverty*, observes:

"We find little evidence that poor people are poor because of laziness or disinterest in work and savings. Even in very poor and conflict-prone areas, poor people seldom seem apathetic. Instead they take initiatives often pursuing many small ventures simultaneously to survive and get ahead."²⁹

At the same time, Narayan points out, "Individual hard work and belief in self can take people far, but it cannot make up for lack of economic opportunity and blocked access to opportunity in the communities where poor people live."³⁰

The Bank's *Moving Out of Poverty* study states:

"In country after country, when we asked movers (defined as households that were poor in 1995 but had moved out of poverty by 2005) to name the top three reasons for their move out of poverty, the answers most frequently emphasized were people's own initiative in finding jobs and starting new businesses."³¹

The study concluded, "...the two overarching concepts that emerge are initiative and opportunity. The interaction between these two largely structures the movement out of poverty."³²

Portfolios of the Poor: How the World's Poor Live on \$2 a Day sheds valuable light on the poor as rational economic actors and market participants, willing to pay for quality and reliability. Released in 2009 and based on a series of yearlong 'financial diaries' written in collaboration with about 300 poor households in rural villages and urban slums in Bangladesh, India and South Africa, the reports authors comment:

“...we were struck by two thoughts that changed our perspective on world poverty, and on the potential for markets to respond to the needs of poor households. First, we came to see that money management is, for the poor, a fundamental and well-understood part of everyday life. It is a key factor in determining the level of success that poor households enjoy in improving their own lives. Managing money well is not necessarily more important than being healthy or well educated or wealthy, but it is often fundamental to achieving these broader aims. Second, we saw that at almost every turn poor households are frustrated by the poor quality – above all the low reliability – of the instruments that they use to manage their meager incomes. This made us realize that if poor households enjoyed assured access to a handful of better financial tools, [in particular, day-to-day money management; building-long term savings; and general-purpose loans], their chances of improving their lives would surely be much higher.”³³

More in-depth market research is required to better understand the needs, aspirations, capacities, constraints, and resource management strategies of the poor. It is an areas that warrants increased investment and engagement from both the development and the business community. The business community, for example, has extensive expertise and tools when it comes to understanding, segmenting and working with consumers, suppliers and employees in more developed economies and market segments. These tools could be adapted and applied to new and emerging segments further down the income pyramid, with both the technical support and in some cases co-financing of the development community, drawing on extensive lessons from participatory approaches and appraisals in the development community.

2. Including the poor as producers, employees and consumers

Inclusive business and markets can help people to lift themselves out of poverty in three main ways:

(i) Including the poor as producers

One key pathway to enabling the poor to generate income, create livelihoods and build assets is through self-employment or entrepreneurial opportunities. A valuable role can be played by value chain linkage initiatives that integrate the poor more fairly as producers, suppliers, distributors, retailers, franchisees, and business customers into local, regional and global value chains. The following three approaches are worthy of note:

- **Buying from** small and micro enterprises, farmers and other natural resource producers – sourcing, sub-contracting, and procuring raw materials, goods and services from the poor. For example, agribusiness out-grower schemes, forestry product initiatives, and local content or procurement initiatives in the extractive, tourism and manufacturing industries. In short, ensuring access to markets for raw materials, goods and services produced by the poor.

- ***Distributing through*** small and micro enterprises and agro-dealers – forward business linkages aimed at accessing hard-to-reach or low-income farmers, consumers and end-use markets through small and micro distribution, retail and franchisee networks, such as those being utilized by consumer goods and agriculture services companies.
- ***Selling to*** small and micro-enterprises owned by the poor and to farmers and other natural resource producers – forward linkages aimed at providing reliable, affordable and accessible productive inputs to support small and micro-enterprises, farmers and other low-income producers to increase the productivity, quality, reliability and scale of their business activities and hence their incomes and assets. Most important from the perspective of poverty alleviation is the provision of productive inputs, such as fertilizer and seeds to small scale farmers, but there are many examples of other key productivity input such as business finance and business development services, information technology, electricity, and so on.

(ii) Including the poor as employees

Not everyone is an entrepreneur or wants to be self-employed. Paid employment in local or multinational firms and value chains can enable people to generate income through wages and salaries. Three aspects of including the poor as employees that are crucial to their ability to lift themselves out of poverty are: workforce development or improving employability; the quantity of jobs available and rate of pay; and the quality of these jobs, especially in terms of labor rights, occupational health and safety and opportunities for personal development.

Workforce development and training: This requires a range of activities from investments in skills development and vocational training, to efforts to match these activities to evolving market needs and employment opportunities. There are opportunities for governments and public and private training institutes to work more effectively with major private sector employers and industry associations to improve both the quality and market relevance of workforce development programs.

Quantity of work and wage rates: In its 2004 report *Unleashing Entrepreneurship*, the United Nations Commission on the Private Sector and Development stated, “... for output growth to contribute to poverty alleviation, it must translate into incomes of the poor. For wage labourers and salaried workers, the quantity of employment and the rate of pay are crucial.”³⁴ Even when people are employed they often remain poor. As the International Labour Organisation (ILO) observes, “nearly half of the world’s 2.8 billion workers are unable to earn enough to lift themselves and their family members above the US\$2-a-day poverty line.”³⁵

Quality of work: Equally, many of the employed poor, even those working in the formal sector and supply chains of major corporations, work under appalling conditions and face threats to their personal health or safety. As such, another important factor in poverty alleviation is the quality of employment. The implementation of fundamental labor principles and rights at work, for example, are essential aspects of harnessing markets to alleviate poverty through employment as they help to improve the quality and safety of working conditions, ensure fairer wages and empower workers. The availability of workplace capability building and skills training is also an important aspect of

improving the quality of employment. The ILO, which is the only United Nations agency that is governed on a tripartite basis with representatives of governments, employers and workers, has developed the framework of ‘Decent Work’, which it describes as: “the aspirations of people in their working lives – their aspirations for opportunity and income; rights, voice and recognition; family stability and personal development; and fairness and gender equality.”³⁶

A dedicated focus on both the quantity and quality of employment opportunities can help to create the right balance between labor productivity and protection and between the economic contributions made by the poor as paid employees and the economic opportunities they gain in return.

(iii) Including the poor as consumers

Inclusive business and markets can also play vital role in scaling and sustaining the development and delivery of essential goods and services needed by the poor as consumers.

The poor, especially the rural poor, often lack reliable, convenient and/or affordable access to many of the goods and services that are essential for meeting their basic needs – even the most basic survival needs – improving their quality of life, enhancing their personal productivity, increasing their household savings and other assets, and decreasing their vulnerability and strengthening their resilience to deal with crisis. This includes access to food and nutrition, clean water and sanitation, shelter, healthcare, energy, education, training, savings, credit and risk management financial services, information, and transportation.

Two crucial aspects of more effectively including the poor as consumers, which are particularly important in terms of enabling them to lift themselves out poverty are:

- Developing new products and services that directly target the needs of the poor
- Delivering existing goods and services more accessibly, affordably and reliably

Developing new products and services that directly target the needs of the poor: Innovation and research and development in new technologies, processes and products can play a vital role in improving development outcomes for the poor. In recent years some of the greatest and most celebrated successes in poverty alleviation have been as a result of new information technologies, innovation in the life-sciences and biotechnology in areas such as health, nutrition and agriculture, and emerging clean or low-carbon technologies that have directly targeted unmet consumption needs of the poor in ways that are affordable, scalable and sustainable. There remains enormous untapped potential in this pathway out of poverty and a combination of public-private partnerships and inclusive business and markets are needed to reach this potential.

Delivering existing goods and services more widely, accessibly, affordably and reliably: As highlighted in almost every study looking at meeting the significant unmet consumption needs of the poor, in far too many cases they pay a ‘poverty penalty’ – higher prices and costs for lower quality and reliability.³⁷ Even in the case of the most essential goods and services such as life-saving health interventions and food security, governments may be unable or in some cases unwilling to provide these to their citizens in a manner that is reliable, affordable and accessible. The poor often pay a

relatively large amount to access these services from formal and informal private sector providers or must rely on charitable support from nonprofit and humanitarian relief organizations, which is difficult to scale and sustain beyond periods of major humanitarian crisis. Research on healthcare in sub-Saharan Africa by McKinsey and the IFC, for example, has shown that, “In spite of billions of dollars in international aid dispensed, an astonishing 50 percent of Sub-Saharan Africa’s total health expenditure is financed by out-of-pocket payments from its largely impoverished population.”³⁸

Ongoing efforts are needed by governments and donors to improve market incentives and regulatory environments that enable both for-profit and non-profit private sector actors to develop and deliver products and services that respond to the significant unmet basic consumption needs of the poor. Concerted efforts are also needed to strengthen public institutions and service delivery systems – especially in the case of health, food security, energy, water and sanitation, and education. Partnering, on both a commercial and pre-competitive basis with large corporations in the healthcare, food and beverage, utilities, education, and information and communications technology sectors can play a vital role helping to improve the public sector’s own capacity and capability to deliver these essential goods and services.

At the same time, there are untapped opportunities to explore inclusive business models and market-based solutions – either through large companies, or small commercial and social enterprises, for directly helping to improve access, affordability and reliability. Engaging low-income consumers directly to undertake local market research and community consultations and to provide direct input into product and service delivery design is often a crucial factor in determining the success of these models. Initiatives such as Cornell University’s ‘Base of the Pyramid’ learning laboratory and William Davidson Institute at the University of Michigan have undertaken useful work in developing protocols and toolkits in this area.

Market-based solutions led or supported by the private sector may not necessarily be the best approach, and at all times accountability is essential. Yet, they should be explored more systematically as a viable option that can both meet the needs of the poor and meet the profit and other motivations of private enterprises.

Over time, efficient and inclusive markets also enable the poor to accumulate assets – the physical, financial, natural, social and human capital that provides people and their communities with a foundation on which to build longer-term wealth and resilience and to shift from a harsh battle for daily survival to more sustained security and prosperity.

The quotes in Box 3 offer a snapshot from a few research studies that highlight the importance of markets for the poor and the need to make them more inclusive.

BOX 3: Summarizing why markets matter for the poor

[There is] strong evidence that engaging the poor as customers and suppliers presents an exciting – and significant – opportunity to establish new paradigms to bring genuine social change in economically sustainable ways.

Emerging Markets, Emerging Models: Market-based Solutions to the Challenges of Global Poverty

Monitor Group, 2009

Findings of a study of more than 300 market-based initiatives, mostly in India

Addressing the unmet needs of the Base of the Pyramid (BOP) is essential to raising welfare, productivity, and income – and to enabling BOP households to find their own route out of poverty. Engaging the BOP in the formal economy must be a critical part of any wealth-generating and inclusive growth strategy. And eliminating BOP penalties will increase effective income for the BOP. Moreover, to the extent that unmet needs, informality traps, and BOP penalties arise from inefficient or monopolistic markets or from lack of attention and investment, addressing these barriers may also create significant market opportunities for businesses.

The Next Four Billion: Market Size and Business Strategy at the Base of the Pyramid

International Finance Corporation and World Resources Institute, 2007

Analysis of survey data from national household surveys in 110 countries and an additional standardized set of surveys in 36 countries on incomes, expenditures and access to services.

Expanding the role of markets is one of six pathways to success in developing-country agriculture. While implementation and results of market reforms have been mixed, there are examples where these reforms and efficient supply chains have, “played an important role in improving the production incentives for farmers, increasing incomes from farming, and improving food security.”

MillionsFed: Proven Success in Agricultural Development

International Food Policy Research Institute, 2009

Findings of a study of 20 proven successes, drawn from more than 250 candidate case studies

Markets matter for the poor because poor people rely on formal and informal markets to sell their labor and products, to finance investments, and to insure against risks. Well-functioning markets are important in generating growth and expanding opportunities for poor people. That is why market-friendly reforms have been promoted by international donors and by developing country governments, especially those democratically elected.

But to develop markets and the institutions that support them is difficult and takes time.

...And even when markets work, societies have to help poor people overcome the obstacles that prevent them from freely and fairly participating in markets.

...The potential of reforms to improve access to markets for poor people can be seen from examples in three areas: lifting the heavy hand of regulation, especially on the small businesses that often provide the poor with employment; promoting core labor standards; and improving access to financial markets for the poor.

World Development Report 2000-2001: Attacking Poverty

The World Bank

Drawing on the findings of the Voices of the Poor study that surveyed over 60,000 people in some 60 countries

The value of including in functioning markets the billions of people that are now shut out of them can hardly be overestimated. Such value will accrue to business, to the poor and to society at large. Businesses can generate profits and create the potential for long-term growth by developing new markets, innovating with new technologies, products, services and processes; expanding the labor pool; and strengthening the supply chain. Poor people can enter value chains at various points, from producing the raw materials to consuming the end products. They benefit from better access to goods and services that meet basic needs and increase productivity. They can also improve their incomes and escape poverty using their own means. Opportunities for creating mutual value exist in many sectors, from agriculture to manufacturing, from telecommunications to finance.

Creating Value for All: Strategies for Doing Business with the Poor

Growing Inclusive Markets initiative, UNDP, 2008

Findings from a survey of over 400 inclusive business models and 50 case studies

IV. THE CHALLENGES OF BUILDING INCLUSIVE BUSINESS AND MARKETS

Markets matter. Yet, in far too many situations around the globe they are inefficient, inequitable and inaccessible. They fail to work for the poor. In a world where the collaborative efforts of scientists, entrepreneurs, financiers and governments have sent people into space, cracked the human genome and led to the discovery and commercialization of a vast array of life-enhancing technologies, it is unacceptable that there are still over 2 billion people who live in conditions of abject poverty struggling to survive on less than \$2 a day.

As outlined previously, the poor lack not only economic choice and assets, but all too often also political voice and the capacity to organize collectively in order to increase bargaining power. In many countries they are disproportionately young people and children under the age of 25 and/or women and minority groups. Their circumstances have been further undermined in recent years by the combination of global economic crisis, food and fuel price hikes, ongoing conflict and weak governance in some countries and the early impacts of climate change in others.

Beyond the avoidable loss of life that results from such circumstances, perhaps the greatest tragedy of this situation is that the creative and intellectual potential of much of the world's population remains untapped and unable to contribute towards global prosperity and wellbeing. As former US President Bill Clinton has commented:

“...all over the world, intelligence and energy are evenly distributed, but opportunity, investment and effective organizations are not. As a result billions of people are denied the chance to live their lives to the fullest, and millions die needlessly every year.”³⁹

In short, several billion men, women and children continue to live in extreme poverty often through little fault of their own, but because of a combination of organizational, market and governance barriers. These barriers make it difficult for the poor to enter formal markets as producers and employees, and to access affordable and reliable products and services as consumers. At the same time, many of the same broad barriers make it difficult for private sector enterprises to build inclusive business models and markets that include the poor as producers, employees or consumers.

The combination of these barriers, their specific manifestation and their materiality differ for different countries, industries, markets and market segments, but they include the following:

- **Organizational barriers:** These relate mostly to companies and other private sector actors wanting to build inclusive business models. They include obstacles such as inadequate organizational structure and capacity; lack of leadership vision or support for new approaches; traditional mindsets and culture; inadequate skills, competencies and knowledge of relevant staff; lack of dedicated staff time and resources; and lack of metrics, evaluation approaches, and inappropriate performance rewards or lack of internal incentives for social innovation and risk-taking.
- **Market barriers:** These relate to both the companies and other private sector actors trying to build inclusive business models and to the poor trying to enter formal markets as producers, employees and consumers. They include challenges such as lack of access to appropriate and affordable finance (both business finance and consumer finance); lack of relevant market

information, knowledge and price signals; misperceptions of risks and lack of risk management options; inadequate institutional and physical infrastructure; lack of access to relevant technology; and lack of a supportive business or market enabling environment (including laws and regulations covering

- **Governance Barriers:** These relate to both private sector actors trying to build inclusive business models and to the poor trying to enter formal markets. They include bad governance, characterized by corruption, conflict, cronyism and lack of political rights, which make it difficult even for the largest companies to operate but often penalize the poor to a far greater extent. Weak governance is another barrier, characterized by poor administrative capacity and weak public institutions. Other public policies and regulations do not serve the poor because they are either unfair, uncertain or uncoordinated.

Given the range and extent of these organizational, market and governance failures the poor find it difficult to enter formal markets. For example:

- **The poor as producers** face numerous, and well documented barriers to entering the formal economy as entrepreneurs, farmers and small or micro business owners. These include inhospitable macro environments at both the national and global level, lack of institutional and physical infrastructure, weak rule of law, limited access to legal rights and a level playing field, and lack of access to financing, skills, knowledge, technology and market information.
- **The poor as potential employees** often lack access to the education, training, workforce development services and labor market information that is needed to prepare for and find decent work. Once in work, even in formal sector jobs, they often lack knowledge of their labor rights, opportunities for personal development and training, and capability to organize in order to improve both their productivity and their protection.
- **The poor as consumers** have to manage both low and fluctuating incomes and cash flows, exacerbated by lack of access to consumer finance such as credit, savings and insurance products. Many are illiterate and don't have sufficient information or knowledge about the products and purchasing options available to them. They are often physically far removed from convenient outlets to purchase or receive essential products and services.

In summary, these barriers increase the real and perceived risks and costs of building inclusive business models and markets from the perspective of private entrepreneurs, companies and financiers, and they limit the incentives for these private sector actors to intentionally engage the poor as producers, employees and consumers. This in turns makes it difficult and costly, if not impossible, for the poor to access formal markets as producers, employees and consumers.

Clearly, organizational, market and governance barriers exist in most industries and countries, developed as well as developing. The Ford Foundation's eight-year *Corporate Involvement Initiative*, for example, which aimed to leverage American business and markets for low-income people

primarily in the United States identified many of the same barriers as those outlined in this report.⁴⁰

Not surprisingly, however, such barriers are particularly challenging in developing economies where institutions are often less developed, information is inadequate, other market signals and incentives are unclear or non-existent, capital is limited and expensive, transaction costs are high, and risks, both real and perceived, tend to be higher. In such situations markets don't work well in the first place, let alone for the poor, making it particularly challenging to build more inclusive business models and markets that directly include the poor. This is especially the case in many low-income urban and rural communities – the 'base of the pyramid' markets in these countries.

The IFC, Harvard Kennedy School and International Business Leaders Forum conclude in their 2008 report, *Supporting Entrepreneurship at the Base of the Pyramid through Business Linkages*, "At the Base of the Pyramid (BoP), market systems are broken. They cannot be taken for granted, as they often are at the top of the pyramid. Companies have to think proactively about the systems in which their BoP suppliers, distributors, and customers are embedded and often take action to make them work better. As Monitor Institute puts it, they have to 'organize the entire value chain end-to-end.'"⁴¹ That is a significant undertaking that is unlikely to make sense for many companies on their own, without support and coordination from other companies, governments, foundations, investors and Former USAID Administrator Henrietta Holsman Fore notes, "Poverty is a problem in itself, but it is also a symptom. It is a symptom of broken relationships. Ending poverty through sustainable economic growth requires investment in technologies, capital and markets. It also requires stronger relationships between governments and governed. Governmental reforms to regulation that support private sector activity have greater success when the reforms come out of a dialogue between the government and the private sector, between management and labor, between business and its stakeholders."⁴²

None of these barriers are insurmountable, but overcoming them requires creativity, collaboration, and long-term commitment. Such approaches require political and social interventions, as well as economic solutions. They require capacity building and concerted efforts at field-building and clear incentives for innovation and entrepreneurship. And they call for leadership from all development actors, most notably governments, bilateral and multilateral donors, development finance institutions, philanthropic foundations, academic institutions and think tanks, non-governmental organizations, and key private sector actors, such as large corporations, high-impact commercial and social entrepreneurs, and private financiers.

Part Two of the report focuses on the leadership role of key private sector actors in overcoming these barriers and in identifying opportunities for implementing innovative technologies, business models and value chain approaches in the context of low-income markets. Part Three outlines some of the ways in which other development actors can enhance and support the private sector contribution and help to make markets work better for the poor.

PART TWO



Mobilizing Private Sector Leadership

There are many ways to segment the private sector – by industry, by firm size, by role played within specific value chains, and so forth. Regardless of segmentation, large corporations, ‘high-impact’ entrepreneurs and private financiers are three groups of private sector actor that play an essential catalytic, innovation and scaling role in building more inclusive business models and creating local wealth in developing countries. The following chapter illustrates ten broad ways in which these private sector actors can play a leadership role. While private enterprises are at the heart of each of these modalities of engagement, their effectiveness, scale and sustainability can often be enhanced through interventions by other development actors and by new models of collaborative action as outlined in Parts Three and Four.

I. LARGE CORPORATIONS

1. Leveraging core business operations and value chains
2. Enhancing corporate philanthropy, volunteering and social investment
3. Participating in public policy and advocacy

II. ‘HIGH-IMPACT’ ENTREPRENEURS

1. Targeting local ‘opportunity’ entrepreneurs
2. Scaling social entrepreneurs
3. Empowering social intrapreneurs

III. PRIVATE FINANCIERS

1. Delivering microfinance services to the poor
2. Funding small and growing businesses
3. Investing in emerging corporate ‘champions’
4. Leveraging additional private finance for development



Business is a powerful and unique instrument of development. As Adam Smith and Montesquieu understood, the ordinary conduct of commerce – of turning a profit – creates not only economic value, but social value as well. Without business, progress is not possible. It is also clear, however, that progress remains elusive in much of the world. And as the global population continues to grow, and competition for resources intensifies, the basic challenge of development will continue to increase. Against this backdrop, the 2015 deadline for achieving the Millennium Development Goals somehow seems both overly optimistic and not nearly ambitious enough. ...To be sure, one of the essential first conditions for development – free trade and open markets – has always required a level of cooperation between businesses and governments. Even so, a generation ago, economic opportunity, health care, environmental protections, and other basic issues of global development almost surely would have been considered matters for governments to address alone. No longer. These issues are now the shared responsibility of government, civil society and business. And in each of these sectors, it requires leaders to come forward and shoulder the responsibility to ensure that action is taken and progress sustained.

Neville Isdell
Chairman, International Business Leaders Forum
Making Change, IBLF Annual Review
2008

...A new imperative for business, best described as “global corporate citizenship,” must be recognized. It expresses the conviction that companies not only must be engaged with their stakeholders but are themselves stakeholders alongside governments and civil society. International business leaders must fully commit to sustainable development and address paramount global challenges, including climate change, the provision of public health care, energy conservation, and the management of resources, particularly water. Because these global issues increasingly impact business, not to engage with them can hurt the bottom line. Because global citizenship is in a corporation’s enlightened self-interest, it is sustainable.”

Klaus Schwab
Executive Chairman, World Economic Forum
Foreign Affairs
January/February 2008, Volume 87



I. LARGE CORPORATIONS

The impact of large domestic and foreign corporations on poverty alleviation and development varies widely. It is driven by factors such as the company's industry sector, its size, business model, ownership structure, values and leadership. It is strongly influenced by local contextual and situational conditions, especially the capacity of other public and private actors. And it depends on the type of development interventions needed – whether increasing access to jobs, markets, technology, energy, water, health, housing and education, strengthening local institutions and infrastructure or improving accountability and public capacity.

The motivations and drivers for corporate engagement in these activities also vary across industry sectors and on a company-by-company basis. In most cases they include some combination of harnessing business opportunities to create new value, managing risk to protect existing value, and adhering to corporate culture and values. Some key business drivers and motivations are summarized in Box 1.

Regardless of this diversity, over the past decade the following trends have been gathering momentum in determining how leading corporations manage their role in development and in society more generally:

- **Engaging the core business:** There has been a fundamental shift beyond traditional corporate philanthropy and compliance to more strategic approaches that integrate social, environmental and human rights issues into the core operations of the business. These are being integrated from both a risk management and accountability perspective, and from a business opportunity and innovation perspective. This is a shift that has long been advocated, but is now manifesting in a meaningful way in many leading corporations and extending along their entire value chains.
- **Increasing non-financial reporting and accountability:** A shift is also occurring towards reporting publicly on environmental, social and governance (ESG) performance in addition to financial results. Corporations are also engaging more systematically with a greater number and variety of stakeholders using mechanisms that range from stakeholder advisory and review panels to new social media.
- **Making philanthropy more strategic:** Companies are moving towards more performance-driven approaches to their philanthropic and volunteering activities. This shift aims to achieve greater impact for philanthropic dollars and hours spent by harnessing core corporate competencies and aligning philanthropy, volunteering and community engagement more clearly with the company's corporate strategy and competitive context.
- **Setting voluntary industry standards:** While legal compliance remains essential and a challenge in many countries, and sometimes because of this challenge, leading companies are working collectively to establish voluntary industry standards in areas such as anti-corruption, human and labor rights, and environmental impact.

- **Building collaborative alliances:** Leading companies are engaging not only in project-based and more transactional partnerships with business partners and non-traditional partners such as NGOs and development agencies, but are also engaging in more complex industry-wide or multi-stakeholder alliances aimed at achieving broader systemic impact and transformation and tackling complex problems. These will be explored in more detail in Part Four.

These trends all have important implications for the way that corporations engage in poverty alleviation and development. Almost all large companies – whether domestic or foreign – have the potential to make a contribution to poverty alleviation, or at a minimum to avoid causing or exacerbating poverty, through the following three areas of business action:¹

1. **Core business operations and value chains**
2. **Corporate philanthropy, volunteering and social investment**
3. **Public policy dialogue and advocacy**

The following section offers brief examples of how some major domestic and foreign companies operating across a variety of industries and countries are taking practical action in each of these areas to build more inclusive business models and to proactively support poverty alleviation and development.

BOX 1: The case for corporate engagement in poverty alleviation and development

Driving innovation, new business opportunities and revenue growth	<p>Developing economies are an increasingly important source of new business opportunity and innovation. More than 75 percent of the world's population lives in these countries, many are rich in natural resources, and over the past decade these markets have started to account for a growing percentage of the world economy, currently an estimated 40 percent adjusting for power purchasing parity. They offer companies opportunities to reach new customer segments and to develop new products, services, technologies and business models that profitably serve untapped markets and solve development and environmental challenges. In addition to reaching base of the pyramid markets, there is growing opportunity and incentives to invest in low-carbon growth and resilience. In some cases there is an immediate commercially viable business opportunity in these new markets, but often partnerships with governments, donors, social enterprises and impact investors can help to speed innovation and impact.</p>
Managing risks and costs	<p>Developing countries often pose high costs and risks for business. These may stem from weak governance, inadequate infrastructure, health and education systems, poor working conditions and human rights challenges, corruption, political instability, insecurity, water scarcity and environmental degradation, and high staff turnover and low productivity due to infectious and tropical diseases in certain locations. These can increase operating costs, raw material costs, hiring, training and personnel expenses, security costs, insurance needs and the cost of capital. They can also create a variety of operational, financial, political, regulatory and reputation risks. The companies that proactively identify and manage these challenges can improve their management of risk and reputation, reduce their costs and enhance their resource efficiency. This usually requires them to play a more proactive role in working with government, engaging with local communities and activist organizations, improving supply chain management and going beyond traditional business boundaries to solve problems.</p>
Improving the enabling environment	<p>Most corporations benefit from operating in stable and secure environments. They benefit from having access to a healthy and competent workforce, consumers who can afford their goods and services, and local investors. They benefit from open, rules-based and predictable regulatory and financial systems, and a non-corrupt and well-governed economy. So, in addition to directly managing risks along their own supply chains, many companies see value in engaging in broader efforts often collectively with other companies or in partnership with the public sector to improve the enabling environment.</p>
Responding to regulation	<p>In a number of cases both developed and developing country governments are implementing policies and regulations requiring large corporations to meet higher social and environmental standards and /or to serve specific low-income markets. In addition, public sector procurement policies are increasingly factoring these requirements into tender processes. International financial institutions, export-import banks and other public sector providers of finance for private sector entities are doing likewise.</p>
Recruiting, motivating, retaining and developing employees	<p>The best talent is increasingly motivated to work for companies that offer not only good career prospects and financial opportunities, but also have a good reputation and are seen as active corporate citizens, both within the local communities where they are hiring and on a global basis depending on the industry. This can have implications for employee moral, motivation and in some cases efficiency. It can also be important from a talent management and leadership development perspective. Giving people opportunities to address development challenges, work across geographic, sector or functional boundaries, and use their core competencies on a volunteer basis, can help to retain the best talent. It can also help to develop the kind of cross-boundary leadership skills and creative thinking that are necessary for individual and institutional success in the complex, knowledge-based global economy.</p>
Improving reputation and brand equity	<p>Good public relations and reputation are important corporate assets, especially for companies with valuable consumer brands. If engagement in poverty alleviation and development projects can help to enhance these brands, or at a minimum protect them, it is an investment well worth making for these companies.</p>
A moral and humanitarian imperative	<p>There are particular situations, such as responding to a humanitarian crisis, where a company's values and that of its employees are the major motivator for active engagement – with no intent to gain business benefit or manage business risks. For companies operating in countries with high levels of poverty this moral 'citizenship' or humanitarian imperative is often a daily reality of operating there.</p>

BOX 2: The corporate contribution to development

PARTICIPATING IN PUBLIC POLICY DIALOGUE, ADVOCACY AND INSTITUTION BUILDING

- Tackle corruption and promote good governance
- Strengthen public institutions and administrative capacity
- Contribute to national development plans and poverty alleviation strategies
- Advocate for pro-development policy reform



ENHANCING CORPORATE PHILANTHROPY, VOLUNTEERING AND COMMUNITY SOCIAL INVESTMENT

- Align core competencies with specific development goals:
- Mobilize skilled volunteers for development projects
- Crowd-source solutions through online platforms
- Seed-fund innovation and entrepreneurship
- Strengthen the capacity of local leaders and institutions
- Connect humanitarian relief with long-term recovery and resilience
- Fund research, public awareness and advocacy for development

LEVERAGING CORE BUSINESS OPERATIONS AND VALUE CHAINS

Optimize the development impact of existing business operations

- Create decent jobs
- Produce safe and reliable products and services
- Generate local investment, income and taxes
- Invest in human capital and workforce development
- Support local enterprise development
- Transfer technology
- Implement global standards and business practices
- Build institutional and physical infrastructure

Promote responsible business standards and accountability

- Comply with national and international laws and regulations
- Support voluntary principles, codes and standards
- Spread international good practices along supply chains
- Engage systematically with key stakeholders
- Report publicly on environmental, social and governance (ESG) performance

Innovate to serve the poor through commercial business models

- Develop direct business linkages with small and micro-enterprises
- Gear product development and delivery to meet essential consumption needs
- Share intermediary platforms and networks to expand reach
- Invest in pro-poor science and technology research
- Converge solutions to poverty alleviation and climate change
- Harness consumer spending in wealthy markets

Source: Adapted from Nelson, Jane. *Business as Partners in Development: Building wealth for countries, companies and communities*. New York: The World Bank, UNDP and IBLF, 1996; Nelson, Jane. *Building Partnerships: Cooperation between the United Nations system and the private sector*. New York: United Nations, 2000.

I. LARGE CORPORATIONS

1. Leveraging core business operations and value chains

Far and away the greatest, most sustained contribution that companies make to poverty alleviation and development is to invest and to carry out their core business operations in a profitable, inclusive and responsible manner.

In the vast majority of cases local private sector development, sometimes supported by foreign direct investment and portfolio flows, is the foundation of economic growth and wealth creation in developing countries and communities. Both directly and indirectly, private enterprise usually results in beneficial development multipliers and serves as a positive driver of social progress as well as economic opportunity. There is not always a ‘trickle-down’ effect, however, in terms of alleviating poverty and including the poor more directly in formal markets. Leading companies are going a step further to proactively and systematically optimize the positive development multipliers and minimize negative impacts from their core business operations and value chains, while also looking for ways to innovate that explicitly include the poor as producers, employees and consumers in these operations.

Core business operations include the company’s corporate governance and its investments, activities and relationships in the workplace, the marketplace, along its value chain and through its wider business ecosystem. Leveraging the company’s core business operations and value chains offers the best opportunity to create a mutually reinforcing combination of shareholder value and social value for the company and the countries and communities in which it operates – what Michael Porter and Mark Kramer have called ‘shared value’.²

Three important dimensions to consider when looking at opportunities to leverage core business operations to create business value and development impact are as follows:

- i) **Optimize the development impact of existing business operations** – understanding, managing and wherever possible enhancing the positive multiplier effects or ‘development footprint’ of the company’s existing business operations and minimizing negative impacts.
- ii) **Promote responsible business standards and accountability** – complying with national laws; supporting voluntary industry standards; spreading international norms, standards and good practices along global supply chains in areas such as corporate governance, ethics, anti-corruption, product safety, quality management, environment, labor and human rights; managing carbon and water footprints; undertaking social and environmental impact assessments for new projects and investment; reporting publicly on non-financial performance; and engaging proactively with stakeholders around key development challenges.
- iii) **Innovate to directly serve the poor through commercial business models** – explicitly mobilizing corporate resources, assets and networks to create livelihood opportunities through employment and entrepreneurship, and to develop and deliver essential goods and services for the poor as producers, employees and consumers. This modality of engagement lies at the core of the concept of inclusive business and inclusive markets.

(i) Optimize the development impact of existing business operations

Directly and indirectly, every company has an impact on development through its regular, day-to-day business activities and the multiplier effects they engender. Box 2 summarizes eight development multipliers that are relevant for large companies in most industry sectors.

Remarkably few companies measure, understand or tell a holistic story about their contributions to and impacts on development through their existing day-to-day business operations. As the Overseas Development Institute (ODI) noted in a 2009 paper, “We know surprisingly little about the impact of companies, particularly any specific company, on people and economies in developing countries.”³

South African development expert, Ann Bernstein, states in her book, *The Case for Business in Developing Countries*, “Examining the remarkable contribution of successful companies to innovation, wealth creation, employment, training and numerous other societal benefits helps to underline the vital importance of private firms, which are at the heart of the development process. In addition to these visible and slightly better known – although much too little talked about – aspects of corporate social contribution, [there is] a further dimension, that of a company’s indirect impact or ‘invisible corporate citizenship’. This phenomenon concerns the unintended, unexpected positive spin-offs from successful companies. Through their everyday activities, business have a revolutionary impact on people and places, inadvertently acting as ‘beachheads’ for democracy, human rights, the rule of law, greater opportunities for women and other disadvantaged sections of particular societies.”⁴

Clearly, the development impact of doing everyday business can also be negative for host countries and communities. Even well intended interventions and investments by large companies can exacerbate poverty and increase environmental degradation, human rights abuses or conflict, especially in the case of large-scale infrastructure projects and/or in politically or environmentally fragile locations where governance is weak. Much has been written, for example, about the ‘resource-curse’ in weakly governed countries or regions that are rich in natural resources, but where the exploitation of these resources has undermined rather than enhanced the development prospects of citizens.⁵ Likewise, there has been extensive analysis of abusive working conditions, both real and perceived, along the global supply chains of certain multinational manufacturing and agribusiness companies.⁶

Understanding the development impacts and contributions of its existing business activities, both positive and negative, should be the first step for any corporation interested in more effectively leveraging its core business operations and value chains to support poverty alleviation and development. Every industry and every large corporation can identify and assess the key types of positive multipliers and the most material risks along its value chain, what can be termed as the company’s ‘development footprint’. Doing so gives the company the data and the insight needed to manage its ‘development footprint’ more deliberately in the future – both to avoid risks and unintended negative consequences and to optimize the benefits for host countries and communities.

BOX 3: Potential development multipliers from 'everyday' core business operations

1 CREATING JOBS:

Companies can support national and local employment generation by: creating jobs at all levels of operations and management for local employees; supporting indirect local job creation along local and global value chains; proactively employing women and minorities where possible; aiming to minimize the economic and social costs associated with corporate restructuring, down-sizing and other major change.

2 PRODUCING PRODUCTS AND SERVICES:

All companies produce goods and services for end-use or intermediary customers. They can ensure more beneficial local impacts by: investing in product quality and safety; adapting existing brands or developing new brands that meet local needs, tastes and cultures; ensuring affordability and access in the case of basic or essential goods and services; understanding and managing the full product-life cycle from sourcing to manufacturing, marketing, distribution and product end-use and disposal, and encouraging reduction, recycling and reuse of key nonrenewable materials.

3 GENERATING INVESTMENT, INCOME AND TAXES:

Companies can inject cash into local, regional and national economies and increase capital investment by: paying local taxes and royalties to host governments; wages to local employees; timely payments to suppliers; grants, donations or social investments to local community initiatives; reinvesting back in the local business for future growth; earning foreign exchange.

4 INVESTING IN HUMAN CAPITAL AND WORKFORCE DEVELOPMENT:

Companies can support human capital development through: training and skills development for direct employees; training and skills development for joint venture partners, local contractors and suppliers, and other local entities in the company's ecosystem; implementing occupational health and safety programs for employees and contractors; tackling specific disease burdens or risks such as HIV/AIDS, malaria, TB, road safety through workplace-based programs; investing in research, training and education in local schools and universities.

5 SUPPORTING ENTERPRISE DEVELOPMENT AND ENTREPRENEURSHIP:

Companies can support local business development and entrepreneurship through backward and forward business linkages along their value chains especially with medium, small and micro-enterprises and accompanied by support in terms of financing, business development services and skills development.

6 TRANSFERRING TECHNOLOGY:

Companies can transfer valuable technologies and technical skills to local business partners and host countries. This can include: locating research and development facilities in developing countries; implementing technologies for cleaner and safer production and distribution; researching and carrying out due diligence on potential negative consequences of new technologies; supporting local technology innovation.

7 IMPLEMENTING GLOBAL STANDARDS AND BUSINESS PRACTICES:

Companies can play a vital role in implementing internationally accepted standards and business practices along their supply chains and through strengthening national and local institutions in areas such as: corporate governance; ethics and anti-corruption; quality management, process efficiencies and logistics systems; health, safety, environment and product safety; gender and ethnic diversity; and labor and human rights.

8 BUILDING PHYSICAL AND INSTITUTIONAL INFRASTRUCTURE:

Large companies operating individually or collectively can play a valuable role in contributing to the building and maintenance of both physical infrastructure (transportation, communications, energy, irrigation, water and sanitation, housing etc) and institutional infrastructure (legal, financial and accounting systems, local chambers of commerce etc).

This is starting to happen. Academics, business networks, NGOs, and companies themselves are developing a variety of measurement and reporting tools to better assess corporate impact on poverty and development. This is partly a response to growing stakeholder demand – from campaigners, shareholder activists, local communities, host governments and donor agencies. And it is partly organic, driven by companies themselves in order to improve the quality of data and decision-making around increasingly complex development issues relevant to risk management and business success.

Measurement tools vary in methodology, scope, and objectives. Methodologically, some tools use company data, country statistics, and sophisticated econometric models to calculate results. Other tools incorporate primary data collection at the local level. With regard to scope, some measurement tools are macro level, focusing for example on a company's contribution to national GDP or employment statistics, while others focus on value chains or specific interventions along value chains. Still others focus on particular sets of indicators, in accordance with corporate performance goals or commonly accepted frameworks such as the UN Global Compact's Ten Principles (in the areas of environment, human rights, labor and anti-corruption) or the Millennium Development Goals (MDGs). Finally, the objectives for which a particular tool is suited depend on the nature of the data it generates. A given tool may be most appropriate for communication, for opportunity identification and decision-making, or for comparison and compliance, or a combination of the three.⁷

Four initiatives focused on measuring and better understanding and managing a company's development impact are profiled below. The first and second are being led by the corporate sector, the third is being developed by a development NGO, and the fourth by an academic institution.

Box 4 captures some 'headline' findings from two publicly released 'development footprint' studies of Unilever and SABMiller.

The International Council of Mining and Metals has developed a toolkit to enable mining companies and their stakeholders to analyze the social and economic contribution of the mining sector. To-date it is one of the most comprehensive and ambitious undertakings of its kind and has been extensively field-tested and negotiated over a period of some 8 years. While developed by and for the mining sector, this toolkit is likely to have relevance and applicability to other large corporations with a physical presence or operations in developing countries.⁸

Entitled, "*Mining: Partnerships for Development*", the toolkit builds on an earlier community development framework that was developed by ICMM in cooperation with the United Nations Conference on Trade and Development (UNCTAD) and the World Bank Group. The pilot toolkit was launched in 2005 and has been extensively tested by mining companies and development experts in a variety of locations and circumstances. The toolkit also draws on research findings and consultations undertaken through a multi-year and externally peer-reviewed 'Resource Endowment Initiative'. This initiative focused on addressing some of the key challenges associated with the so-called 'resource curse' of extractive industries in developing countries and made practical recommendations for the mining sector, governments, donors and communities on ways to optimize

BOX 4: Examples of two development footprint studies

“Exploring the Links between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia” and “The Socio-Economic Impact of Nile Breweries in Uganda” are two development footprint studies that have been publicly released by the companies and researchers involved.

They look at different companies in different countries and different industries, and were conducted by different actors using different methodologies. But they both show just how significant the economic multipliers and impacts of a company’s day-to-day operations can be.



“Exploring the Links between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia”

This study was conducted by the development NGO Oxfam and Unilever, with support from both international offices and on-the-ground engagement and learning through their local country offices. The study looked at Unilever Indonesia’s entire business and value chain and found that for every direct job created within the company,

approximately 90 additional jobs were created along the value chain, resulting in the full-time equivalent of some 300,000 people earning a living from Unilever’s operations. An estimated 1.8 million small businesses and street vendors were identified in the company’s distribution and retail operations, accounting for over half the direct and indirect jobs created. The company generated US\$633 million in gross margins along the value chain in 2003.

“The Socio-Economic Impact of Nile Breweries in Uganda”

This study was conducted by a business school professor, Ethan Kapstein from Insead, together with two consultants on behalf of SABMiller, the parent company of Nile Breweries. The study looked at the company’s broad economic, social, and environmental impacts in Uganda and found that in 2007 for every job created within the company, an additional 100 jobs were created directly and indirectly through the value chain, mostly for workers in the distribution and retail sector. Local smallholder farmers also benefited through livelihoods and income generation as a result of the company’s commitment to use locally produced sorghum and barley for its beer production. The company generated US\$92 million in value added in 2007. The direct, indirect and induced effects of the company’s operations on government tax revenues totaled some US\$ 55 million, making it the fourth largest tax payer in Uganda, and as the researchers commented, “a fact made all the more significant when one considers that much of the country’s economic activity remains in the informal or non-taxpaying sector.” As an employer, Nile

Breweries provides comprehensive benefits, including medical care covering access to HIV/AIDS prevention, counseling and treatment among other services, a private pension scheme and extensive training for workers – equal to nearly 1 percent of turnover in 2007. Spending on corporate social investment amounts to nearly 1 percent of pre-tax profits.

NB’S DIRECT OR ‘FIRST-ROUND’ IMPACT

The effects of NB’s operations in terms of the number of jobs it creates, its investments in plant and equipment, its turnover, and taxes paid, and its economic effects on its distributors and retailers.



NB’S INDIRECT OR ‘SECOND-ROUND’ IMPACT

The effects of NB’s expenditures on its suppliers and its suppliers’ suppliers.



NB’S INDUCED OR ‘THIRD-ROUND’ IMPACT

The effects generated by the consumption decisions of NB, its suppliers’, and its suppliers’ suppliers’ employees.



NB’S TOTAL ECONOMIC IMPACT ON THE UGANDAN ECONOMY

the positive development multipliers and mitigate negative impacts from mining activities. In-country consultations and projects were also undertaken in Chile, Ghana, Peru and Tanzania to test different approaches and models.

The resulting toolkit proposes a detailed eight stage process, which is designed to be both comprehensive and contextual in terms of covering macro/ country level and local/ project-level conditions and impacts, but also modular so that different stages can be developed independently of each other. The toolkit also provides a variety of practical measurement tools, partnership tools and process tools (such as how to organize workshops and community consultations). The eight stage process is summarized below:

Stage One:	Description of country context (economic performance, political stability, governance, dependence on mining, poverty and human development indicators)
Stage Two:	Profile of mining operations and social and economic performance across six priority themes – mining and poverty reduction; mining and economic development (revenue management); mining and economic development (regional development planning); mining and economic development (local content); mining and social investment; and mining and dispute resolution.
Stage Three:	Measuring economic and social outcomes at the national level
Stage Four:	Assessing proximate influences that shape outcomes at the national level (quality of governance and macroeconomic management)
Stage Five:	Detailed assessment of project level impacts (employment, procurement, training, social and infrastructure provision, net impact)
Stage Six:	Macroeconomic impacts and full lifecycle approach (production, gross domestic product, government revenues, balance of payments, employment).
Stage Seven:	Assessing the broader impact of mining on governance, institutions and policies
Stage Eight:	Presenting and disseminating findings

Source: ICMM

The World Business Council for Sustainable Development’s Measuring Impact Framework was developed primarily for decision-making purposes over the course of two years’ consultation with companies and other stakeholders. It is flexible in scope, customizable to the company’s business issues and decision-making needs, and any number of measurement methodologies may be applied within the framework to generate and analyze data. The Framework consists of four steps:

- set boundaries;
- measure direct and indirect impacts;
- assess contribution to development; and
- prioritize management response.⁹

The framework was developed in collaboration with over 20 WBCSD member companies from a variety of industry sectors. It was reviewed by 15 external experts and co-branded by the International Finance Corporation (IFC). At least 15 companies from a variety of industry sectors have used the Framework since it was released in 2008 and several have shared their experience publicly via case studies on WBCSD’s website.¹⁰

Oxfam's Poverty Footprint methodology offers another tool for measuring a company's development impact. The Poverty Footprint can be applied at different levels of analysis, from the value chain for a particular product to the entire operation of a company in a given country. To enhance the credibility of the findings, the tool stipulates that the research be done by an independent third party jointly supported by the company and a development NGO. Five major research areas are covered:

- Macro economy;
- Institutions and policy;
- Product development and marketing;
- Value chain analysis; and
- Social implications of environmental practices.¹¹

The Base of the Pyramid (BOP) Impact Assessment Framework developed by the University of Michigan's Ted London offers a third tool. In contrast with WBCSD's *Measuring Impact Framework*, which is flexible in scope, and Oxfam's Poverty Footprint, which is usually applied at the national, regional, or value chain level, the BOP Impact Assessment Framework is designed to capture the impact of a particular initiative or intervention – usually a specific business model offering goods, services, or livelihoods to those at the base of the pyramid, as the tool's name implies. The tool covers the impact of the business on local consumers, producers, and communities along three key dimensions: their economics, their capabilities, and their relationships.¹²

Companies are often wary of the time and cost involved in measuring their development footprints. Certainly these are important considerations when selecting measurement tools – but they should not deter the exercise of better understanding and evaluating the company's development impacts. Many tools are flexible in terms of scope and methodology and can accommodate different budgets and time horizons. Even more fundamentally, many tools go beyond communications and compliance, generating information that can inform corporate decision-making and influence the bottom-line. As Ted London stresses, in this sense, “measurement should be considered an investment in learning and continuous improvement – not a cost center”.¹³

(ii) Promote responsible business standards and accountability

Once corporations understand their ‘development footprint’ – and the main areas where their core business operations make a contribution or pose a risk to development – they can take action to leverage these operations in a way that creates greater business value and development impact, over and above the positive multipliers that result from their existing operations.

One crucial set of actions is the implementation of policies and practices to minimize negative development impacts and to proactively manage the company’s non-financial performance and accountability to owners and other stakeholders. In particular, companies must ensure that their business operations and value chains do not exacerbate poverty directly or cause corruption, human rights, labor or environmental abuses that undermine opportunity or security for the poor.

Large corporations increasingly recognize the following five components of responsible business performance and accountability as being an essential foundation to ensuring and sustaining a positive development impact:

- Comply with national and international laws and regulations
- Support voluntary industry principles, codes and standards
- Spread international good practices along supply chains
- Engage systematically with key stakeholders
- Report publicly on environmental, social and governance (ESG) performance.

All these aspects of promoting responsible business standards and accountability have been covered extensively in numerous other reports, case studies and initiatives.¹⁴ The following provides a very brief overview and a few illustrative examples.

■ Comply with national and international laws and regulations

Adhering to national and international laws and regulations is the minimum standard of corporate responsibility in developed and developing countries alike. But just because it is a basic obligation does not mean it is an easy one. Laws and regulations vary markedly both between and within countries. For companies operating in over 100 countries and often thousands of legal jurisdictions if one takes into account regional, state and municipal laws, remaining compliant on a raft of corporate governance, labor, health and safety, human rights and environmental laws is a substantial undertaking.

Legal compliance can be especially challenging in countries characterized by weak governance, in particular fragile and conflict-affected states, but also where governments lack either the administrative capacity or the political will to monitor compliance at the factory or farm level. In such cases the poor are often particularly vulnerable to abuses and lack of access to judicial and other grievance mechanisms. Global companies, especially those with a large physical footprint in such situations such as extractive, infrastructure, agribusiness, forestry and large-scale manufacturing companies, are increasingly under the spotlight to demonstrate that they are not directly responsible for or complicit with abuses of human rights, poor labor, health and safety standards, corruption or environmental damage. To address this challenge of ensuring they and their business partners are

legally compliant, some companies are taking action beyond their own business operations to proactively work with governments and other development actors, both on an individual basis and collectively, to help strengthen national legal institutions, regulatory capacity and rule of law.

■ **Support voluntary industry principles, codes and standards**

Legal compliance alone does not ensure that the company has a positive impact either on society in general or the poor in particular, especially in situations of weak governance. As a result, many leading companies have moved “beyond legal compliance” to implement voluntary principles, standards, and codes of conduct together with corresponding internal monitoring and evaluation, auditing, and public reporting processes. Most of these companies now have their own internal policies, management procedures and performance targets in the areas of human rights, labor standards, environment, health and safety, and anti-corruption measures.

Many of the same companies are also engaged with collective industry-wide voluntary mechanisms or multi-stakeholder initiatives that involve non-governmental organizations and government entities. Some of these voluntary mechanisms have originated outside the business community, promulgated for example by the United Nations, governments or NGOs. UN agencies, the OECD and international standard setting bodies, such as ISO have been instrumental in establishing industry guidelines and standards. Other initiatives have been developed by multi-stakeholder coalitions that include business from the outset in designing, implementing and governing the initiative. A number have been established by trade and industry associations themselves with adherence a requirement of membership, such as Responsible Care in the chemical industry and the CARE process for labor standards developed by the International Council of Toy Industries.¹⁵

This is an area that has undergone substantial change in the past decade. Voluntary mechanisms now cover a wide range of issues ranging from environmental performance to human rights and labor standards to the payment of taxes and more. They include almost every major industry sector. A few of these voluntary multi-stakeholder initiatives are briefly profiled in Part Four of the report in the section focused on collaborative models to improve mutual accountability and transparency.

■ **Spread international good practices along supply chains**

One of the most effective ways that large companies can promote responsible business standards at scale is by spreading international good practices along their supply chains. Many multinationals now make adherence to selected standards or performance targets a requirement not only for the company’s own subsidiary operations and country managers in developing countries, but also of contractual agreements that the company undertakes with other business partners. These include, for example, procurement, distribution, franchising and retail agreements. When it comes to greening supply chains or spreading good corporate governance, labor and human rights standards, the positive multiplier effect of multinational corporate supply chains can be substantial reaching thousands of other large, medium and small-sized companies many of them in developing countries.

Responsible supply chain management usually includes the following components:

- Implementation of corporate policies and supplier codes of conduct, outlining the company's requirements for supplier performance and reporting in areas such as product quality and safety, human rights, labor standards, environmental impact, and ethics and anti-corruption measures;
- Materiality analysis to identify and prioritize the issues that have the highest impact on or potential risk for the business and for development
- Environmental, social and human rights impact assessments and/or footprint analysis for new projects, investments and business relationships
- Internal and third part monitoring and auditing of supplier performance with clear processes for continuous improvement, remediation and termination of contracts
- Investment in supplier and worker capacity building
- Establishment of grievance mechanisms
- Public reporting of supply chain issues and performance.

Companies in many sectors are recognizing that setting and auditing performance standards is necessary but not sufficient to ensure workers, local communities and the environment benefit from supply chain initiatives. The provision of capacity building and economic incentives are equally important. As a result, a number of companies combine requirements for social, environmental, ethical and human rights standards with capacity building, technical assistance and the provision of management tools for their suppliers and other contractual partners in developing countries, especially for smaller companies and agricultural suppliers. In recent years there has been a significant shift in this direction. This integrated approach can help the multinational company to manage reputation and other risks, and in many cases to cut costs, drive operating efficiencies and improve performance. At the same time it can build the local awareness and capabilities that help to embed good practice in developing countries.

The transfer of international good practices along supply chains has been important in the areas of labor standards and human rights. Companies in a variety of industries that source from factories and manufacturing plants in developing countries have worked both individually and collectively with their business partners to improve the safety and quality of working conditions for low-income factory employees, many of them young women. Others, such as those in the extractive, infrastructure and agricultural sectors have also implemented labor and human rights policies that must be adhered to by their suppliers.

Carbon and energy management is another area of growing importance. Strategies include activities such as energy efficiency measures, reducing, recycling and reusing other natural resources and waste, carbon footprinting and greenhouse gas inventories, and the purchase of renewable energy and emission reduction credits or carbon offset programs. In some cases, as outlined in the section on the convergence between poverty and climate change, offset programs by companies in developed countries can help to support local economic and community development projects and the creation of livelihood opportunities in developing countries.

Water scarcity and inequality poses a growing threat to poverty alleviation in many low-income communities. In recent years activists have shone a spotlight on large companies or their supply chain partners that are using water or perceived to be using water in a manner that undermines the water security and economic viability of local communities and low-income producers and consumers. Driven by the need to manage reputation and other risks and to ensure sustainability of water supplies for their own business operations, many companies beyond those in the water sector have started to implement processes to improve water resource management. They are doing so not only in their own operations, but also along their supply chains and within the broader communities and watersheds in which they and their business partners operate. As with carbon and energy management, such approaches can help to transfer global management processes and technologies to developing countries. In certain cases, they can also help to improve the water security of low-income communities in these countries.

Leading companies are also starting to share their expertise beyond their own supply chains. The Global Water Tool is one example. It was launched in 2007 by the World Business Council for Sustainable Development, with the goal of helping companies map their water use, assess levels of risk along their global operations and supply chains, and improve communication with internal and external stakeholders. Developed by an advisory board of 22 corporations led by CH2M HILL, by early 2010 this water tool was being used by an estimated 300 companies around the world, spreading good practices to many more enterprises along their supply chains.¹⁶

Initiatives such as the World Economic Forum's 'Water Initiative' and the UN Global Compact's 'CEO Water Mandate' also provide useful platforms and action frameworks for companies from both developed and developing economies, including guidance on how to address water scarcity challenges in host communities and local watersheds. The 'CEO Water Mandate' provides a strategic framework and regular workshops and policy briefs to assist companies in developing an integrated approach to water resource management in the following six areas:¹⁷

- Direct operations
- Supply chain and watershed management
- Collective action
- Public policy
- Community engagement
- Transparency.

Box 5 provides vignettes of two long-standing supply chain initiatives being implemented by individual companies – Gap Inc. and Starbucks. The first focuses on improving working conditions in factories in developing countries and the second on improving economic, social and environmental conditions for smallholder farmers. These are just two examples among several thousand increasingly sophisticated 'responsible supply chain initiatives' that are being implemented by individual companies operating in developing countries. Part Four of the report looks at some of the industry-wide collaborative initiatives that aim to achieve more systemic impact in making global value chains work better for the poor.

BOX 5: Spreading responsible standards along individual corporate supply chains

Improving working conditions in apparel factories: **Gap Inc.**

Many of the world's major footwear, apparel and toy brands contract the manufacturing of their products to factories located in developing countries. The jobs provided in these factories can offer a vital pathway out of poverty for millions of young people. At the same time, labor standards may be well below international norms and national requirements. Over the past fifteen years, spurred by a variety of activist campaigns focused on publicizing 'sweatshop' working conditions in some of these factories, leading industry brands have embarked on both individual and collective efforts to improve the safety, quality and fairness of factory-working conditions along their supply chains.

The complex and multi-faceted nature of the challenge means that no one brand or company can tackle the challenge alone. A number of multi-stakeholder initiatives have been established over the past decade, a few of which are outlined in Part Four of the report. At the same time, individual companies can still achieve a great deal through their own policies and processes and the multiplier effect of their own supply chain.

Gap Inc. provides one of a number of examples of how an individual company is managing this issue along its supply chain, increasingly in partnership with others. Gap Inc. is one of the world's largest specialty retailers, with over 3,000 stores and some of the most recognized apparel brands in the world. The company's products are manufactured in factories in many developing countries including in Asia, Africa, and Latin America. In 1992 the company developed its first vendor guidelines followed

by a Code of Vendor Conduct in 1996 (updated in 2008). It has built a specialized team of vendor compliance officers (VCOs), who over the past decade have been trained not only to undertake factory monitoring and rating, but also to develop remediation plans and implement capacity-building efforts that enable factory managers and workers to improve their management skills and systems. In 2008, the company's VCOs monitored factories in more than 50 countries.

The company has been recognized as a leader in publicly setting performance targets and reporting on the success and challenges of its program against these targets. It has also been a leader in establishing some of the multi-stakeholder initiatives in the apparel sector. In addition, Gap Inc. has started to explore ways to improve working conditions even further along its supply chain on the farms that supply the cotton for its products.

At the consumer end of its value chain, Gap Inc. has engaged in a variety of efforts, including the Product [RED] initiative to raise consumer awareness and additional funds for global development projects.

BOX 5: Spreading responsible standards along individual corporate supply chains continued

Promoting responsibly grown coffee: Starbucks C.A.F.E Practices

There is now widespread agreement that increasing the productivity, incomes and environmental sustainability of smallholder farmers in developing countries offers one of the most important and scalable pathways out of poverty. In addition to improving access to and affordability of essential productivity inputs such as seeds, fertilizer, water, credit and agricultural extension services, enabling these farmers to access markets and to integrate into commercial value chains in the case of certain agricultural commodities is essential to achieving this goal. At the same time, there is the need to ensure safe and fair working conditions, to minimize environmental degradation along agricultural supply chains and to ensure as much economic value as possible gets passed through to the farmers, the majority of whom are women in many developing countries. Over the past two decades most major global corporations in the food and beverage sector have implemented internal management systems aimed at achieving these objectives. A growing number have also become engaged with the fair trade or ethical trade movement and joined collaborative multi-stakeholder initiatives to achieve more systemic impact in the commodity value chains that are especially important to poverty alleviation.

Starbucks provides one longstanding example. Over the past decade, working in partnership with Conservation International, the company has developed *Coffee and Farmer Equity (C.A.F.E) Practices*. These are a comprehensive set of measurable performance standards that require the company's suppliers to meet standards in the following areas:

- **Product quality (requirement):** All coffee must meet Starbucks standards of high quality.

- **Economic accountability (requirement):** Suppliers must submit evidence of payments made throughout the coffee supply chain to demonstrate how much of the price Starbucks pays for green (unroasted) coffee gets to the farmer.
- **Social responsibility (evaluated by third-party verifiers):** Measures in place that concern safe, fair and human working conditions. These include protecting the rights of workers and providing adequate living conditions. Compliance with the indicators for minimum-wage requirements and addressing child labor/forced labor and discrimination is mandatory.
- **Environmental leadership (evaluated by third-party verifiers):** Measures in place to manage waste, protect water quality, conserve water and energy, preserve biodiversity and reduce agrochemical use.

In fiscal 2009, Starbucks purchased 367 million pounds of coffee. Eighty-one percent of that coffee came from suppliers that have been approved by the company's C.A.F.E Practices. The company has thousands of smallholder coffee farmers along its supply chain in countries as diverse as Colombia, Costa Rica, Mexico, Panama, Peru, Rwanda and Ethiopia. Conservation International and other NGO and development partners work with farmers on-the-ground, aligning their production practices with Starbucks' requirements. Farmers are scored, and the company commits to purchase from those that score the highest. While the commitment to purchase has been the most critical success factor for this supply chain model that integrates smallholder farmers into global markets, Starbucks has also made other investments to support these farmers and their communities.

The company has provided more than \$15 million in loan capital for specialized small enterprise financial institutions such as Verde Ventures, Root Capital, and the Calvert Foundation to on-lend to farmers, enabling them to meet their working capital requirements for the growing season and to sell their crops at the best time to get the right price. The company plans to increase its farmer loan guarantees to US\$20 million by 2015 and to also provide farmers with incentives to reduce the environmental impact of coffee production. In Costa Rica and Rwanda, Starbucks has also established Farmer Support Centers to provide local farmers with expertise and resources to improve their productivity and incomes and to implement responsible social and environmental practices.

In addition, Starbucks has been purchasing Fair Trade certified™ coffee since 2000 and is today the largest purchaser of such coffee in the world. This commitment has helped to raise awareness of global development among consumers and to grow the market for Fair Trade certified coffee in the United States, while also enabling farmers and farmer cooperatives to invest in their farms and communities and in local environmental protection. Also at the consumer end of the value chain, Starbucks has joined Gap Inc. and other companies in the Product [RED] initiative, and is undertaking a variety of other consumer engagement efforts to raise public awareness on global development issues.

While these supply chain management and consumer engagement activities are having a direct impact on strengthening farmers and their communities, they are also helping the company to stabilize access to a premium crop, ensure traceability, improve its overall social and environmental impact, and build brand reputation and consumer loyalty.

■ Report publicly on environmental, social and governance (ESG) performance

Public disclosure of non-financial performance has become a key component of efforts by companies and their stakeholders to promote corporate accountability and transparency. In 1992 there were less than 50 publicly available reports covering a limited range of mostly philanthropic and environmental issues. Today, according to the Global Reporting Initiative and corporateregister.com there are some 4,000 major companies producing such reports annually. KPMG estimates that 80 percent of the companies listed in the Global Fortune 250 issued public corporate responsibility reports in 2008.¹⁸ Most of these reports now cover a broad range of environmental, social and governance (ESG) issues. Several trends have helped to improve the credibility, content and comparability of company ESG reports.

A growing number of companies provide independent, third party verification or assurance of the information and performance metrics contained in their reports. Traditional accounting firms as well as niche assurance organizations are offering this service. A few companies have also established mechanisms to obtain systematic stakeholder reviews on their reporting, as illustrated in the Nike example in Box 6.

Linked to their overall efforts to improve global supply chain management and to leverage corporate resources as effectively as possible, companies have also started to focus on materiality. This involves identifying, managing, measuring, and then reporting on the issues that are most material or relevant as risks or opportunities to their business, to their industry sector, to the locations in which they operate and to the stakeholders with whom they engage. This has underpinned the use of Key Performance Indicators (KPIs) and frameworks for more consistent publicly reporting on specific goals or targets and progress made against achieving these. It has also encouraged greater corporate transparency around issues or projects that are challenging for the business or that have had negative impacts on its surrounding environment or communities.

Although corporate responsibility reports still vary widely in terms of quality and content, there is now some standardization and comparability. This is due mainly to the platform provided by the Global Reporting Initiative. GRI is a multi-stakeholder organization that has developed a common framework for ESG reporting as well as industry specific supplements. Some 1,400 companies officially report against the GRI guidelines, and it is likely that many more refer to them. More specifically, the Carbon Disclosure Project, which is supported by major investors, has provided a common platform and impetus for corporations to report publicly on their carbon emissions. Other multi-stakeholder initiatives that have been established to improve accountability in specific industry sectors require public reporting of company performance on selected social or environmental issues. A few are profiled in Part Four of the report.

Public reporting on corporate performance in developing countries has also increased. Companies with challenging operations or supply chain issues have led the way, often under pressure from activists, the media and in a few cases investors. Leading companies in the extractive and construction sector, for example, have increased transparency on payments made to governments. Major healthcare companies are reporting and being benchmarked on access to essential medicines that they

produce. Some retailers are undertaking extensive analysis to ensure greater traceability of key products. This can mean tracking thousands of different products and suppliers across diverse industry sectors to better understand their impacts on the environment, on working conditions and on local livelihoods in developing countries.

Companies are also starting to assess and report publicly on the broader economic development impact of their business operations in developing countries. Some are producing country specific reports in key markets. Companies that participate in the UN Global Compact report annually against their Compact's ten principles on human rights, labor, the environment and anti-corruption. A small number of companies have issued public reports on their performance against the Millennium Development Goals.

As investors and regulators gain greater awareness of key non-financial risks and opportunities faced by different industry sectors, it is likely that the demand for mandatory public disclosure will increase. This is already happening in some countries and stock exchanges. It is also happening in relation to certain issues. Examples include the European Union's Directive on Transparency and the 2009 King Report on Governance for South Africa, with an up-dated King III Code for South African listed companies. A 2010 survey of voluntary and mandatory approaches to sustainability reporting in 30 countries, found the following: "A total of 142 country standards and/or laws with some form of sustainability-related reporting requirement or guidance, approximately 65 percent of these standards can be classified as mandatory and 35 percent as voluntary."¹⁹ The survey also identified a total of 16 standards with some form of reporting requirement at the global or regional level and a total of 14 major assurance standards.

A small vanguard of companies has started to develop a more integrated approach to their financial and non-financial reporting. This gradual trend towards integrated reporting goes beyond combining the annual financial and ESG reports to a more holistic approach for assessing and reporting on corporate performance. It reflects efforts by leading companies to embed corporate responsibility issues into their mainstream business operations and to achieve greater alignment between their corporate strategies and their social and environmental activities, including in developing countries.

Another trend is the growing use of the Internet and Web 2.0 platforms to increase the real-time nature and flexibility corporate reporting and to enable greater stakeholder engagement and feedback on company programs and performance. A 2010 report by the Global Reporting Initiative and Volans, in collaboration with Dow, Novo Nordisk and SAP, stated, "The new social technologies, media and networks promise – or threaten, depending on your viewpoint – to transform the reporting landscape. They will simultaneously accelerate and deepen market conversations between business and its current stakeholders, and potentially, bring totally new people and interests into the conversation – with dramatically more powerful information and intelligence resources at their disposal."²⁰ While still in their early stages, such platforms are likely to increase in use. They will drive further accountability and transparency and also make it easier to customize corporate reporting and stakeholder engagement, including for business operations and stakeholders in developing countries.

BOX 6: Examples of development-focused stakeholder engagement mechanisms

These three models illustrate different approaches to engaging stakeholders – to improve the accountability of the company for its impacts, and at the same time to obtain information that helps the company improve its performance.

Independent reviews of corporate performance and reporting:

Nike's Corporate Responsibility Report Review Committee

Nike's Corporate Responsibility Report Review Committee is a group of external experts who review and provide feedback on the company's social, environmental, and development performance and performance management systems. They receive no compensation from the company and serve in their individual, rather than organizational, capacities so as preserve the independence of their feedback. For Nike, labor conditions in developing world factories are a major source of development impact. The Committee has been able not only to identify performance shortfalls, but also to suggest ways of improving – for example identifying and addressing the root causes of labor violations by suppliers. The Committee has also helped the company anticipate future challenges before they materialize – for instance the way a shift to lean manufacturing might impact labor conditions, jobs, and economic and social well-being in surrounding communities. Finally, the Committee has urged transparency with respect to sensitive issues where a lack of information could produce misunderstanding – such as the company's position on Chinese labor legislation and its approach to dialoging with the government.

Independent stakeholder feedback on community engagement strategies:

Newmont's Community Engagement Advisory Panel

Newmont strives to engage local stakeholders in all the communities where it operates. In 2007, the company took the added step of setting up an independent Advisory Panel to review its community engagement approaches around the world. Comprised of seven experts from different disciplines and organizational backgrounds, this panel oversaw a review involving 300 internal and external stakeholder interviews, analysis of corporate policies and procedures, and country-level studies of the company's relationships. While acknowledging areas of good practice, the panel publicly highlighted areas where Newmont's community engagement practices needed to improve. In particular, the panel recommended that the company strengthen its dispute resolution capabilities and develop policies and programs that could better guide behavior.

Locally negotiated frameworks for company-community relationships:

Chevron's Global Memoranda of Understanding in Nigeria

In the Niger Delta, Chevron has signed Global Memoranda of Understanding (GMOUs) with eight Regional Development Councils representing the needs and interests of clusters of communities organized along ethnic and traditional affiliations. These agreements, intended as frameworks for more equitable and accountable company-community relationships, outline a system for providing community development support that addresses a range of topics from employment to contracting opportunities to managing conflict. They also provide for Chevron funding both for the councils' own operations and for community projects they select and manage themselves. While the GMOU approach is still evolving, and with 85 communities involved will take a long time to take root, the company believes it has already transformed the attitudes of Chevron personnel and council leaders – creating levels of trust and cooperation that neither side had experienced before.

Sources: Corporate reports and third-party stakeholder reviews

■ Engage systematically with key stakeholders

At the same time as they are complying with laws and voluntary standards, many companies are actively engaging with stakeholders to improve accountability and transparency. While laws and voluntary standards codify generally held expectations for corporate behavior, those expectations are changing all the time, and many companies find it useful to set up “real-time” mechanisms of stakeholder engagement in order to stay ahead of the curve. Such mechanisms can help companies identify and prevent problems that laws and voluntary standards did not anticipate. They are also proving critical to resolving disputes before they escalate to formal arbitration or the courts. These mechanisms range from active community affairs officers to stakeholder dialogues, to the establishment of stakeholder panels and grievance or dispute resolution mechanisms. A few examples of companies implementing stakeholder engagement mechanisms that are relevant to their performance in developing countries are given in Box 6.

Spectrum of stakeholder engagement mechanisms



• All of the above may be broad-ranging covering the full range of corporate responsibility strategy or focused on a single priority issue, process or project

(iii) Innovate to serve the poor through commercial business models

Optimizing positive development contributions, minimizing negative impacts and promoting responsible business standards provide an important foundation for corporate leadership for development. In addition, there is growing potential in many companies and industry sectors to leverage core business operations and value chains even further to achieve positive development impact while also creating value for the business. One of the most exciting frontiers for corporations interested in poverty alleviation and development – one with significant potential for sustained impact at a large scale – is innovating to serve the poor through commercial business models.

Around the world, a new generation of business leaders is experimenting to find profitable ways of bringing critical goods, services, and livelihoods within reach for people living in poverty. They are developing economically viable ways to deliver food, water, housing, healthcare, education, information, financial services and other enabling products and technologies to low-income consumers and producers enabling them to improve their quality of life, expand their economic opportunities, earn income and grow and safeguard assets. They are empowering people as consumers, employees and producers, offering the dignity that comes with the ability to choose. And they are making or expect to make money in the process, enabling them to sustain and scale their models over time.

Of significance importance for development and poverty alleviation is the fact that such innovation is being driven not only by well-known western-based multinational corporations, but increasingly also by emerging market companies and social enterprises in developing countries themselves and by the local subsidiaries and R&D centers of western players operating in these countries.

BOX 7: Examples of networks and initiatives that are studying and promoting value chain linkages between large corporations and local small and micro enterprises in developing countries

There are many initiatives in the academic, development and corporate communities to study and promote innovative models for large corporations to do business with local small and micro enterprises in developing countries. These include, among others:

- UNDP's Growing Inclusive Markets Initiative
- The WBCSD-SNV Inclusive Business Alliance
- The International Finance Corporation's Inclusive Business unit
- The IBLF's Inclusive Business Initiative
- The University of Michigan's William Davidson Institute
- Enterprise Solutions for Poverty
- Cornell University's Center for Sustainable Global Enterprise
- The Social Enterprise Knowledge Network
- The Global Social Benefit Incubator at WRI and Santa Clara
- Ashoka's Full Economic Citizenship Initiative
- The Inter-American Development Bank's Opportunities for the Majority initiative
- The UK Department for International Development (DfID's) Business Innovation Facility

As *The Economist* argues in “The World Turned Upside Down”, a 2010 report on innovation in emerging markets:

“The emerging world, long a source of cheap labor, now rivals the rich countries for business innovation. ...Developing countries are becoming hotbeds of business innovation in much the same way as Japan did from the 1950s onwards. They are coming up with new products and services that are dramatically cheaper than their western equivalents: US\$3,000 cars, \$300 computers and \$30 mobile phones that provide nationwide service for just 2 cents a minute. They are reinventing systems of production and distribution, and they are experimenting with entirely new business models. All the elements of modern business, from supply chain management to recruitment and retention, are being rejigged or reinvented in one emerging market after another.”²¹

Whether driven by private enterprises in developed or emerging markets, such innovation has the potential to have profound consequences for poverty alleviation and development, and is already doing so in certain sectors and markets. This emerging pro-poor manifestation of corporate innovation and leadership is gaining interest among a wide range of private sector, donor and NGO actors. A variety of terms are being used to describe it – such as ‘inclusive business’, ‘base of the pyramid business’, ‘market-based solutions’, ‘creating shared value’, ‘social business’ and ‘creative capitalism’, among others. This is an emerging field with enormous potential for creative new approaches by companies and their development partners.

There is no one-way to go. In some companies innovative new approaches to tackling development challenges are being driven by existing business units as a core strategy to grow new markets. In others, corporate foundations or social venture models are seeding such innovative new approaches before they become mainstreamed back into the core business. In some cases, dedicated business units, incubators and profit-centers have been created to spearhead pro-poor business models, sometimes with different performance criteria and personnel policies to the rest of the company’s business. Nontraditional corporate alliances with social entrepreneurs, foundations, donors and non-governmental organizations are also spurring such innovation and new business models. Individual intrapreneurs within companies, such as those profiled in the section on ‘high-impact entrepreneurs’, play a vital leadership role in many companies although these new approaches nearly always require senior executive support to move forward in a commercially viable manner.

The following approaches offer great potential in harnessing commercial business models and innovation to expand opportunity and access for the poor:

- Build direct business linkages with small and micro enterprises;
- Gear product development and delivery to meet essential consumption needs;
- Share intermediary platforms and networks to expand reach;
- Invest in pro-poor science and technology research;
- Converge solutions to poverty alleviation and climate change; and
- Harness consumer spending in wealthy markets.

■ Build direct business linkages with small and micro enterprises

A number of large companies operating in developing countries are directly including or looking at ways to include small and micro enterprises in their corporate value chains. Such business linkages can not only meet the direct supply, distribution and retail needs of the large companies, but at the same time help to increase local employment, enhance local skills, standards, and capacity, facilitate access to finance, and provide opportunities for further growth and wealth creation.²² As outlined in Part One, large companies can:

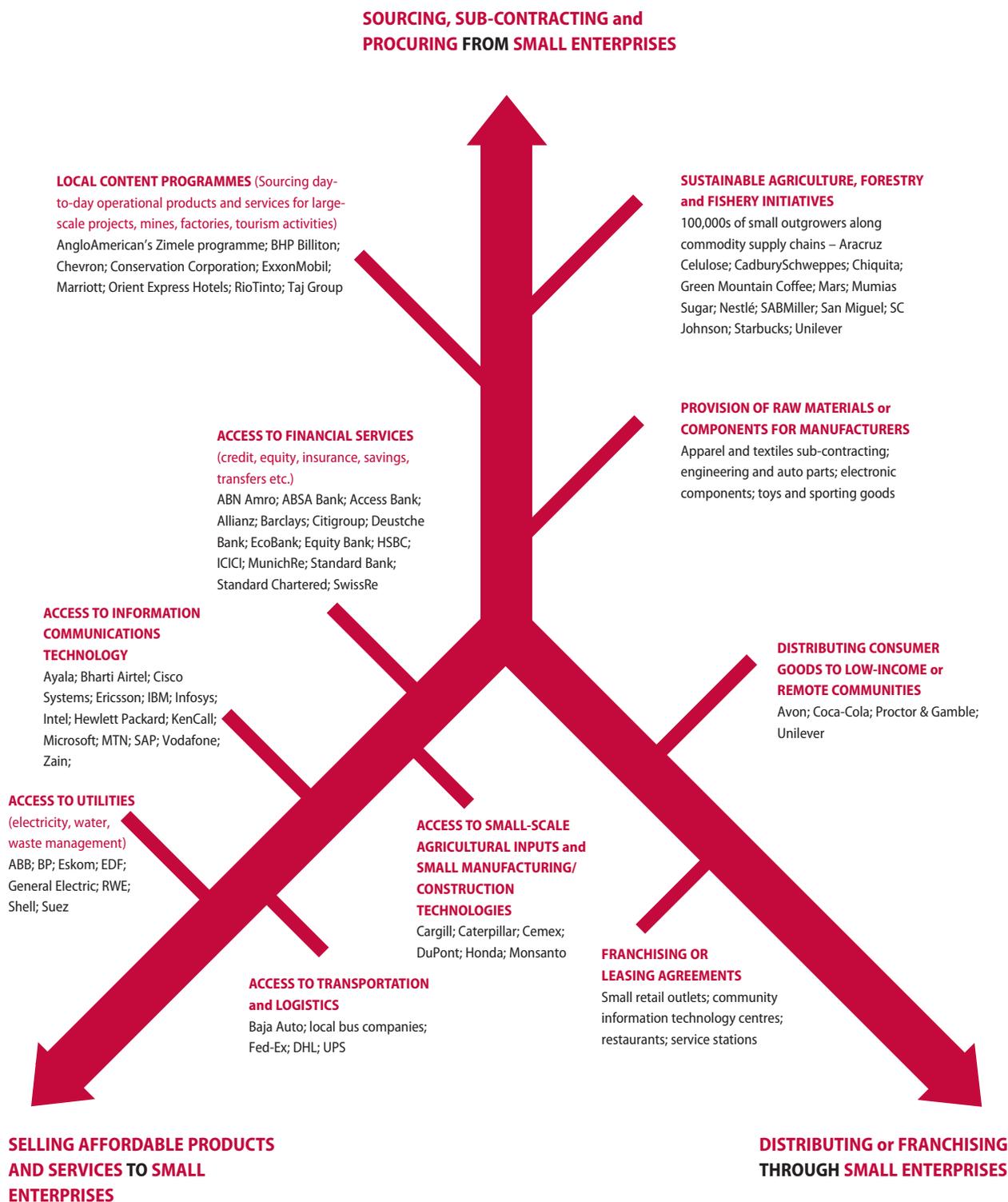
- **Buy from small and micro enterprises:** Companies can source, sub-contract, and procure goods and services through, for example, agribusiness out-grower schemes and local content initiatives in the extractive, forestry, manufacturing and tourism industries.
- **Distribute through small and micro enterprises and agro-dealers:** Companies can serve physically hard-to-reach or economically untapped low-income markets through local small and micro distribution and retail networks, like those being utilized by a number of consumer goods and agricultural input companies.
- **Sell to small and micro enterprises:** Companies can offer productivity-enhancing and growth-enhancing business products and services such as credit, insurance, market information, business development and training services, and information and communications technologies.

The diagram in Box 8, illustrates a small number of the business linkage initiatives that are being implemented by large companies in a variety of business sectors and developing markets.

As various studies and dialogue have stressed, doing business with small and micro enterprises in developing countries can be much harder than in developed countries due to systemic challenges in the operating environment.²³ For example, such enterprises may find it difficult or impossible to get access to finance for working capital or growth. They may lack the knowledge and skills to meet the safety, quality, and other standards large firms require. The regulatory environments in their countries may limit their abilities or incentives to incorporate formally or to grow to a scale that would interest a large firm. Other aspects of the investment climate, such as inadequate physical infrastructure and tax policy, affect small and micro enterprises and their large firm partners alike.

As a result, for value chain linkages to work, large companies must often do more than buy from, distribute through, or sell to small and micro enterprises – they must find ways to address the systemic challenges their would-be business partners face. These include facilitating access to finance; paying or partnering to provide business skills; supporting environment, health, and safety compliance training; and engaging in public policy dialogue with government to promote a business enabling environment conducive to small and micro enterprise growth. A few of the networks and initiatives that are undertaking research, capacity building, financing and field-building activities aimed at better understanding, starting and scaling business linkages between large corporations and local small and micro-enterprises are highlighted in Box 7.

BOX 8: Business linkage opportunities between large companies and small and micro-enterprises



Source: Nelson, Jane. *Building Linkages for Competitive and Responsible Entrepreneurship*. UNIDO and Harvard Kennedy School, 2007.

Since 2007, the Corporate Social Responsibility Initiative at Harvard Kennedy School has partnered with FSG Social Impact Advisers, the International Business Leaders Forum, the Overseas Development Institute, the World Resources Institute, the Global Challenge Network, and the IFC, among others, to produce a series of publications on business linkage models. These have included sector studies of such models in the food and beverage, extractive, financial services, utilities, information and communications technologies, healthcare and tourism sectors. An illustrative selection of these business linkage examples from different industry sectors and countries are provided below.

Buying from local small and micro enterprises

ECOM, is a commodity trader that provides smallholder coffee growers in its Central American supply chain with seasonal and selective medium-term financing for inputs and capital improvements, as well as technical assistance to increase yields, improve quality, and become certified under one of the labels the company markets (Rainforest Alliance, Starbucks 4C, and Nespresso AAA). The participation of a high-value coffee buyer like Nespresso is critical to the model, as it sends a strong signal to farmers about the company's intention to purchase high-quality, sustainable coffee at premium prices – influencing their decisions to invest in the necessary improvement programs and allowing ECOM to work with them to plan in advance the quantities that are required. By June 2009, ECOM had purchased nearly half a million bags of certified coffee in the three years since the model was established, representing premiums of \$3,692,000 paid to smallholder farmers.²⁴

SABMiller, one of the world's leading brewers, procures agricultural commodities from smallholder farmers in a number of countries in which it operates. It has found that this strategy helps shorten and simplify the supply chain, enhance availability, reduce pricing risk, and sometimes, obtain excise tax breaks. In India, SABMiller is working with Cargill, its primary maltster, and other partners to support the development of a high-quality local barley malt industry to supply its 10 breweries. Previously, smallholder farmers were uninterested in growing barley, because most of what was produced was feed grade and could not command a good price. SABMiller and Cargill are working with farmers to improve the quality of barley crops by offering certified seeds, agricultural skills training, and other support through Sanjhi Unnati (SU) Centers located in growing districts. Farmers then have the option of selling their produce back to Cargill at those same centers. Since the program was initiated in 2005, the number of farmers participating has increased from 1,574 in 2005-2006 to 6,024 in 2007-2008. Yields and quality have improved, and greater consistency in quality has enabled SABMiller to increase brewing efficiencies.²⁵

Newmont Ghana Gold operates a mine in Ahafo, a rural area approximately 180 miles northwest of the capital city of Accra. In order to reduce supply costs and enhance its social license to operate, Newmont set up a dedicated unit within the supply chain department to work with local suppliers – informing local businesses about its standards, establishing customized local procurement procedures, and obtaining internal “buy-in” within the company for local procurement. The company has also set up the Ahafo Linkages Program jointly with IFC to provide management and technical skills training to local businesses in and outside of its supply chain. A key challenge has been

to change the dominant local view of contracts as entitlements to contracts as the results of competitive bidding processes. The program is also working to diversify local economic activity, historically concentrated in subsistence farming, and to strengthen a local business association. In 2006, Newmont began with 25 local micro, small, and medium enterprise suppliers. As a result of the company's linkage efforts, by 2007 it had increased this figure to 52, and as of the first quarter of 2008, it had reached 88.²⁶

Starwood Hotels & Resorts operates the luxury tourist resort Henequen Haciendas in Mexico's rural Yucatan Peninsula. Starwood sources approximately 90 percent of its fresh fruits, vegetables, and herbs and 100 percent of poultry and pork locally. In addition, the company has sought to develop and include local cultural products and services in its value proposition to guests. For example, the resort's spa facilities work with local cooperatives of masseuses, and its gift shops stock jewelry, sisal weavings, and embroidery from local micro-enterprise development workshops. Starwood organizes guest tours of several workshops, including wood and stone carving workshops, as well. The workshops now support nearly 200 women and are being turned into cooperatives to enable them to grow and diversify their markets beyond the company.²⁷

Distributing through local small and micro enterprises

Coca-Cola Sabco is a key bottler for The Coca-Cola Company in southern and eastern Africa and Asia, with 25 plants employing over 9,700 people across 12 countries. Many of Sabco's territories are characterized by highly dense, low-income urban settlements with narrow, unpaved, and unmaintained roads and high numbers of very small-scale retail outlets. In this context, where classic distribution models are not effective or efficient, Sabco developed an alternative, the Manual Distribution Center (MDC) model. MDCs are independently-owned, low-cost operations run by local entrepreneurs. An MDC usually consists of a small central warehousing facility with a manageable coverage area and defined customer base (typically 150 retail outlets). These outlets are low volume with high service frequency requirements and limited cash flows, which necessitates fast turnaround of stock. Distribution is kept manual to accommodate small drop sizes and physical infrastructure constraints, and to keep costs at a minimum. Today CCS has over 2,200 MDCs operating in East Africa, some 30 percent of which are owned by women, directly employing more than 11,000 people.²⁸

Tribanco is a financial institution established in Brazil by Grupo Martins, the largest wholesaler and distributor in Latin America. Tribanco serves hundreds of thousands of micro, small and medium retailers in Martins' distribution chain, and millions of those retailers' customers. At any given time, Tribanco is financing approximately 150,000 retailers in the short-term for purchases made from Martins, and each year 15,000 of those retailers borrow larger amounts over longer periods for store improvements such as lighting, displays, and technology. In addition, 9,000 retailers participate in Tricard, Tribanco's private label credit card program, offering cards to 4.04 million of their shoppers. Shop owners decide who gets credit and help encourage repayment; while they are not responsible for non-payment, they receive lower transaction fees for lower non-payment rates. 40 percent of Tricard holders earn less than \$280 a month, and 71 percent earn less than \$450 a month. For many, this is their first credit card, enabling them to build credit histories and access greater financial services in the future.²⁹

Nestlé is reaching base of the pyramid consumers in Brazilian *favelas* through a network of micro-distributors and direct sales agents. Nestlé's typical distribution model is to ship one full truck of one product, which does not work well in the *favelas*, where streets are narrow and drop sizes are small. With the Nestlé Até Você model, distributors and micro-distributors buy products and assemble the assortments that micro retailers need. In addition, they assemble pre-packaged kits for direct sale to families in their homes. Their direct sales agents are women from the local communities who have lived there for at least five years and built up relationships of trust. Recruiting typically happens in person or by word of mouth. For example, Nestlé has recruited men selling drinks, candy, and flowers at traffic lights and turned them into micro-distributors. Many of its direct sales ladies previously sold Yakult, a drinkable yogurt, also going door-to-door. Others are recruited in popular spots such as local churches and schools.³⁰

Selling to local small and micro enterprises

Smart Communications, a mobile network operator in the Philippines, provides its Smart Money mobile phone-based money transfer service to more than 7 million Smart Money users nationwide. Smart has relied on the ubiquitous *sari sari* stores, the very small, local retail shops that dominate the Philippine landscape, to sell prepaid airtime for many years. Many customers use Smart Money for these transactions. Recently, a partnership between Smart and the Hapinoy chain of *sari sari* stores has enabled store owners to use Smart Money in their B2B transactions as well. Microventures, an NGO, helps the Hapinoy stores to aggregate their orders and negotiate bulk pricing from wholesalers, including Nestlé and Unilever. The stores get further discounts for paying in Smart Money, which is the equivalent of cash. The combined discounts have enabled Hapinoy stores to offer more competitive prices to their customers, and some stores have increased their revenues as much as three times. In addition, the ability to use Smart Money instead of cash increases safety and reduces the risks of theft and loss, both for store owners and for delivery personnel.³¹

Hariyali Kisan Bazaar is the rural retail arm of DCM Shriram Consolidated Ltd (DSCL), an Indian agribusiness and chemical products corporation. Hariyali Kisan Bazaar (HKB) is focused on increasing rural incomes by improving agricultural practices, with the strategic intent to create long-term relationships with farmers. HKB bridges gaps in technical know-how and access to finance, and brings efficiency, consistency, and transparency to rural retail and agricultural produce markets. The products and services available through HKB include quality agricultural inputs and complimentary extension services, farm fuels, automotive products, construction material, telecommunications services, consumer durables, apparel, and food. HKB's unique selling proposition is affordability and accessibility to rural consumers. DSCL has over 300 HKBs in operation and plans to expand coverage nationwide. The company intends to cover two million farming households in over 20,000 villages and bring 20 million acres of cultivable land under HKB's service in the coming years. There are also plans underway to increase HKB's value proposition by forging alliances with service providers in social sectors like education and health care.³²

■ Gear product development and delivery to meet essential consumption needs

Large companies are finding opportunities to do business not only with small and micro enterprises, but also with low-income individuals and households – offering affordable, convenient products and services that meet essential consumption needs like food, housing, healthcare, water, and electricity.

Serving low-income consumers can be just as challenging as forging value chain linkages with small and micro enterprises, and for some of the same, systemic reasons. Isolated, rural villagers may be unfamiliar with the value proposition behind a particular offer. Consumers without bank accounts or credit histories may not be able to finance bigger ticket items. Poor roads may add so much to distribution costs as to put the product out of reach for low-income consumers. And these systemic challenges are above and beyond already significant operational challenges involved, ranging from changing mindsets within the corporation to accessing internal venture funding to identifying and recruiting staff with the ability to optimize business performance and development impact at the same time.

As the World Economic Forum summarizes, “companies often find it difficult to access [the poor] as a consumer market, since they generally have low and fluctuating incomes and are often located at the end of informal and inefficient market chains. In addition, there is little information available on their behavior and preferences, and marketing strategies devised for higher-income markets are often ineffective in creating or strengthening consumer demand.”³³

Organizations in this field have begun to identify patterns in the strategies and models large companies are using to overcome these challenges to serving low-income consumer markets.³⁴

- One strategy cited throughout the literature is to design appropriate products and processes – like packaging and payment plans that align with the cash flows of the poor. Sachet sizing and pre-paid calling are two of the most common examples.
- Another is to engage the poor in consumer research and co-creation, as DuPont and S.C. Johnson have done with the Base of the Pyramid Protocol.³⁵
- Still another is to invest in consumer education and education-related marketing, sometimes partnering with local NGOs to help shift deeply ingrained perceptions and behaviors.
- Para-skilling, described by Monitor Inclusive Markets, is an additional business strategy for reducing delivery cost. Para-skilling involves breaking complex services down into simple, standardized tasks that do not require specialized skills.³⁶

So far, companies in the consumer products, telecommunications, and financial services sectors have had the most success reaching low-income consumers at significant scale. Companies in some of the sectors of most basic need – such as health care, clean water, and energy – are further behind for a variety of reasons ranging from infrastructure requirements and capital costs to policy and ideology. There are nevertheless a number of pioneering examples. And large firms will have much to learn from the innovation and experimentation of smaller firms and social enterprises in these sectors. Three illustrative examples, from a growing number, are summarized in Box 9.

BOX 9: Product development and delivery to meet essential consumption needs

Nutrition

China's Shijiazhuang Zhenji Brew Group, a soy manufacturer, has worked with the Chinese Center for Disease Control (CDC) and the Global Alliance for Improved Nutrition (GAIN) to make and market an iron-fortified soy sauce. The CDC contributed the fortification formula and manufacturing technology, and Zhenji contributed its manufacturing and distribution capacity. They shared the responsibility for marketing. CDC implemented a national consumer education campaign, while Zhenji targeted retailers and healthcare professionals. As a result of their efforts, sales increased from 1,500 to 20,000 tons per year in just two years, reaching \$5 million. Even more importantly, rates of anemia in some provinces fell from 20 percent to 8 percent.

Source: World Economic Forum (2009). *"The Next Billions: Business Strategies to Enhance Food Value Chains and Empower the Poor."* Geneva: World Economic Forum.

Energy

In Morocco, electricity company LYDEC devised a model to bring unserved households in Casablanca onto the grid as formal, legal customers. The model relies on community representatives who monitor collective meters for entire city blocks, approximately 20 households apiece. Those representatives then bill households according to their individual meters. Initial connections were financed by the company at \$5.50 per household per month over three years. The model also involves a peer-based accountability mechanism in which if one household doesn't pay, the whole block loses power. This system enabled LYDEC to electrify 30,000 or 75 percent of the slum households in Casablanca in five years.

Source: Aron, Jean-Elie, Olivier Kayser, Laurent Liautaud, and Aileen Nowlan (2009). *"Access to Energy for the Base of the Pyramid."* Paris and Washington, DC: Hystra and Ashoka. Pages 23-24.

Water

Manila Water Company, a concessionaire in eastern Manila in the Philippines, has established a model offering low-income households access to clean water through the piped water system. The company's approach was to identify or create cooperatives in neighborhoods targeted for new connections, to take responsibility for metering, billing, and payment. Then the company installed one "mother meter" per neighborhood and one sub-meters per 4-5 households. Cooperatives leaders read the mother meters and settle bills with individual households according to the sub-meters. This model has reduced maintenance and administration costs sufficiently to enable more than 140,000 new connections serving more than 860,000 individuals.

Source: UNDP (2008). *"Creating Value for All: Strategies for Doing Business with the Poor."* New York: UNDP.

■ Share intermediary platforms and networks to expand reach

As experimentation on inclusive business models accelerates, attention is turning toward the need to move beyond pilot projects and address the challenge of achieving scale. How can inclusive business models reach vast numbers of low-income suppliers, distributors, retailers and/or consumers in an economically viable manner while keeping costs down and quality and reliability robust?

In their 2010 report, *Scaling Up Inclusive Business*, the IFC and Harvard Kennedy School studied 14 cases of companies with existing inclusive business models in the IFC's own investment portfolio. These were deemed to be commercially viable and scalable, and had already passed IFC's due diligence processes and received funding. They included companies from a variety of countries in Latin America, Asia and Africa and from sectors such as agribusiness, education, electricity, healthcare, financial services, telecommunications, water and wholesale distribution. The authors concluded:

"In inclusive business, scale is important for business reasons (to compensate for low margins and reach commercial viability) and development reasons (to match the scale of the need on a sustained basis). In many of the cases studied, the potential for scale comes from features such as:

- A “whole pyramid” orientation, in which higher-paying customers enable the company to cross-subsidize or to recoup the cost of up-front investments and expand service to low-paying customers at a low marginal costs;
- Networks that provide cost-effective access to large numbers of suppliers, distributors, retailers and/or consumers; and
- Collaboration and technology, which increase efficiency and expand reach.”³⁷

Work by the Inter-American Development Bank’s Opportunities for the Majority initiative, UNDP’s Growing Inclusive Markets initiative, World Resources Institute, Monitor Inclusive Markets, FSG, Ashoka, TechnoServe and Dalberg Global Development Advisers, among others, all point to the potential of building or leveraging existing intermediary platforms and networks. These platforms and networks can be commercial, governmental, social, informal and even virtual. They can involve a company building its own network, business-to-business (B2B) alliances between companies from different sectors, public-private partnerships, corporate relationships with nonprofit organizations, cooperatives and community-based networks, and the use of information technology platforms and applications.

The Inter-American Development Bank (IADB) has identified six platforms to gain scale in base-of-the-pyramid (BoP) markets. Francisco Mejia and Manuel Bueno from IADB define a platform as follows:

“A platform is the public or private distribution and/or sales network that has been built to cater to low-income markets and, as a by-product of its operations, generates potentially useful information for additional market-based offering. As such, it offers two very useful characteristics for incoming firms with a pre-defined business model wishing to gain scale rapidly: accessibility to and information about BoP customers. Accessibility is a variable that may be measured using two different parameters: capillarity and reach. Capillarity refers to the density of the network in a particular area. ...Reach, on the other hand, is related with the number of different regions the platform may have a presence.”³⁸

The six platforms identified by Mejia and Bueno focus on reaching the poor as consumers. Each has benefits and challenges, but all offer potential for scaling inclusive business models. They can be summarized as follows:³⁹

- **Conditional Cash Transfer (CCT) programs:** Public policy programs that transfer cash or in-kind services to low-income families in exchange for them complying with certain conditions such as sending their children to school or ensuring they have vaccinations. In Latin America, they have benefited an estimated 60 million low-income people. IADB suggests that the provision of household financial services, and products and services linked to education, health and nutrition could be well accommodated in these platforms, especially if combined with mobile phone offerings.
- **Utilities companies:** These are public or private companies that offer electricity, gas and water services to low-income markets, with extensive reach in rapidly urbanizing areas of many developing

countries. The IADB team argue that these represent potentially one of the most flexible platforms for utility companies themselves, or other firms, to offer a range of household products such as financial services, education, health, nutrition and information technology products.

- **Mobile phones:** It is estimated that mobile networks now cover more than 80 percent of the world's population and more than 4 billion people have a mobile phone. As the IADB team and many others have noted, these virtual platforms offer enormous potential for bundling a wide variety of services based on the transmission of voice and data, ranging from mobile banking, to important information in areas such as health, education, agriculture, and small business.
- **Mass consumer goods channels:** Companies in consumer goods industries such as food and beverage, garments, household products and cosmetics often have extensive local distribution and sales networks. In many cases women are vitally important and trusted intermediaries, both as sales agents and also as the customer making the decisions on household purchases. These networks can be harnessed to provide financial services or other products and services related to the original product offer. Mejia and Bueno point out that these networks can also be valuable platforms for educational purposes as they usually based on face-to-face contact and mutual trust – so they can be used to educate consumers about public health, nutrition, financial literacy and so on.
- **Construction companies:** Housing is a major investment and usually carried out on an incremental basis because low-income households lack access to housing finance and legal land tenure. Cement and construction companies have worked with local hardware stores and sales agents to offer a variety of financial and education services to low-income households, with potential to expand the offer to other products such as furniture and energy appliances.
- **Microfinance institutions (MFIs):** Microfinance institutions now serve an estimated 150 million customers. Mejia and Bueno comment that they have the advantage of often reaching poorer areas, with flexible approaches that are able to adapt services to changing socio-economic needs, risk management systems that are customized to deal with informality and in a growing number of cases financially sustainable business models that have been tried and tested. 'Second generation' MFIs are already working with other companies, NGOs and donors to offer productivity-enhancing services to smallholder farmers and to small and micro-enterprises beyond finance. They are also exploring options for health, nutrition and education services and household products.

Monitor Inclusive Markets have identified similar intermediary platforms and networks in their research on market-based solutions in India and Africa.⁴⁰ In their *Pan-African Inclusive Business Models* project, for example, they are studying:

- Consumer facing models and supply chain models enabled by mobile technology in the health and agricultural sector. These include mobile-enabled solutions for the provision of crop insurance, farming advice and information, agricultural market price information and trading, health worker diagnosis support, health monitoring systems and patient reminder services.

- Last-mile energy and water infrastructure models that either extend access to existing utilities and infrastructure (such as municipal water systems and electricity grids) or that establish ‘micro-grids’ around scaled-down infrastructure assets, so-called distributed models.
- Models to leverage informal distribution and sales channels (both non-store channels such as street markets, hawkers, door-to-door agents, NGOs, religious groups, cooperatives and susu collectors, and stores such as informal retailers, distribution agents, agro-dealers, hardware stores, and chemists). The project is looking in particular at models best equipped to deliver socially beneficial products and services such as health products, efficient cook stoves, clean drinking water, solar lighting and banking services.
- Intermediary models in agriculture that aim to serve the production and marketing interests of smallholder farmers. The research project will focus on aggregators such as farmer cooperatives and agro-dealers that sell inputs to farmers and buy farmers’ outputs. The research has also identified contract farming and direct procurement by large agribusiness companies and by parastatals as other intermediary models that could be enhanced to better serve smallholder farmers and expand their economic opportunity and access.

Allen Hammond, who together with Professor’s C.K. Prahalad and Stu Hart coined the term ‘Base-of-the-Pyramid’, calls for a sector-wide strategy that aims to transform crucial economic sectors such as healthcare, energy, housing and rural connectivity. He comments, “How do you meet the unmet needs of four billion people? Convincing a dozen multinational companies to take this market seriously isn’t enough. Doubling or quadrupling the capacity of the organizations that mentor social enterprises and BoP-serving small and medium enterprise won’t do it either. Even investing hundreds of millions of dollars on individual enterprises in this sector doesn’t guarantee success. I think the goal has to be to transform whole sectors in ways that catalyze mainstream investment in BoP economic activity and unleash market forces. To get there, I think we need a more systemic approach. ...the way to create a deal flow and unleash a rising tide of investment is to focus not on individual entrepreneurs, not on individual companies, but on economic sectors.”⁴¹

Such an approach requires collaborative efforts that bring together an ecosystem of anchor companies, suppliers, investors, governments, local enterprises, and so on. Ideally some of which have global reach and value chains that can help to replicate transformative business models in other locations once they have been tried and tested.

There is a need for both individual company inclusive business models and these more collaborative approaches that range from shared intermediary platforms and networks in a specific location to sector-wide collaborative ecosystems. Some of these are profiled in Part Four.

■ Invest in pro-poor science and technology research

Scientific research and the application of innovative technologies to meet the needs of the poor offer one of our greatest opportunities for alleviating poverty. In their 2010 report, *Science and Innovation for Development*, Professors Gordon Conway and Jeff Waage make the case:

“Science underpins improvements in human welfare, through technologies which it develops for health, food production, engineering and communication. Science is also important in solving problems created by human activity, such as environmental degradation and climate change. Science allows us to move forward through incremental improvements in technology, adapted for particular needs and situations. But it also sometimes allows us to leap forward, through fundamental scientific discoveries that entirely change our set of tools for human improvement, and create new platforms for technology, such as the genetic revolution and the consequent development of biotechnologies for improving health and agriculture.”⁴²

Conway and Waage outline the need for what they describe as ‘science innovation systems’ – where basic research undertaken by universities and advanced laboratories generates new understanding that leads to translational research, capable of applying this fundamental understanding to products, processes and systems that we want to improve. This is usually led by government laboratories and public-private partnerships (PPPs). This in turn leads to applied research which results in product development and use, often led by private laboratories and entrepreneurs. Governments are essential at every stage of the process, both as direct actors and as enablers, creating policies and regulations, protecting intellectual property rights and providing public finance in certain cases. So is the private sector. Conway and Waage state, “Private enterprise plays a key role in successful innovation – without business investment and marketing, inventions such as penicillin, computers and mobile phones would not exist today.”⁴³

Private industry invests billions of dollars annually in research and development (R&D) in healthcare, energy, food and nutrition, information and communications, environmental protection, and engineering, construction and infrastructure. Yet, not surprisingly, most private investments in R&D occur in and benefit the citizens of developed economies where there are robust ‘science innovation systems’ and viable markets in place that can offer a sound return on private risk-taking and investment. As Bill Gates has noted, “Society under-invests in innovation in general but particularly in two important areas. One area is innovations that would mostly benefit poor people – there is too little investment here because the poor can’t generate a market demand. The second area is sectors like education or preventative health services, where there isn’t an agreed-upon measure of excellence to tell the market how to pick the best ideas.”⁴⁴

This imbalance is captured by the widely-cited statistic on health R&D: “Only 10 percent of the global spend on health research examines issues affecting the poorest (90 percent) of the world’s population.”⁴⁵ Although global spending on ‘neglected diseases’ (HIV/AIDS, TB, malaria and other tropical diseases) has increased markedly over the past decade, much of it comes from public and philanthropic sources. In 2007, for example, of the US\$2.5 billion that was spent on R&D for neglected diseases, about 70 percent of the funding came from public sector institutions, 21 percent from philanthropic sources, and only about 9 percent from the private sector.⁴⁶

Agricultural research that benefits smallholder farmers and targets staple food crops in developing countries has also been neglected in the past two decades. Public and philanthropic funds to support such research are on the rise, spurred in large part by the global food crisis and growing awareness of the impacts of climate change, but private engagement remains low. According to CropLife International, fifteen of the major agribusiness companies spent an estimated US\$5 billion on agricultural research in 2008, but, “this is largely to produce technologies for subsidized, commercial agriculture producers in developed countries.”⁴⁷ In contrast, the 15 research centers in the Consultative Group on International Agricultural Research (CGIAR) consortium have annual funding of only about US\$500 million, almost entirely sourced from governments and philanthropic foundations.⁴⁸

Large research-based companies are gradually getting more engaged in R&D for development through a variety of commercial investments, corporate philanthropy, social investments and public-private partnership models. In many cases they are supported by public and private donor funding and so-called ‘pull mechanisms’, such as challenge funds, prizes, advanced market commitments and other innovative financing mechanisms, which stimulate market demand for certain technologies and products.⁴⁹ Social enterprises are also playing a role in re-packaging conventional technologies, improving traditional technologies and developing new business models to deliver them in appropriate and economically viable ways to low-income producers and consumers. These interventions, together with the emergence of ‘impact investing’ and social venture capital mechanisms have started to improve the quantity and quality of scientific research and technology innovation targeted to serve the poor.

At the same time, new platform technologies such as mobile telephony, the Internet, diverse software applications, cloud computing, nanotechnology and biotechnology are creating leapfrog opportunities to skip earlier generation technologies, many of which were more costly and less efficient and effective in reaching the poor. In areas such as healthcare, communications, agriculture, financial services and environmental management, they are fundamentally changing the economics of what is viable and scalable in alleviating poverty. Consortia of universities, companies, venture capitalists, philanthropists and public donors are combining world-class technologies with adaptive business models and innovative financing instruments to simultaneously meet the needs of low-income households in developing countries at the same time as those in industrialized countries. As the Rockefeller Foundation and Global Business Network note in a report on *Scenarios for the Future of Technology and Development*, “...technology has been dramatically changing not just the lives of individuals in developed countries, but increasingly the lives and livelihoods of people throughout the developing world. Whether it is a community mobile phone, a solar panel, a new farming practice, or a cutting edge medical device, technology is altering the landscape of possibility in places where possibilities used to be scarce.”⁵⁰

A vanguard of companies from both developed and developing countries is starting to target commercial R&D resources or leverage social investments in R&D to address critical development challenges. On the consumer side, for example, R&D by companies and social enterprises has generated a number of low-cost technologies for renewable energy and water purification at the community and point-of-use levels. These technologies are in turn enabling new business models that target low income and rural

households. On the producer side, agribusiness firms are investing to develop new seeds and plant varieties designed to deliver high yields under the kinds of growing conditions smallholder farmers in developing countries face – ranging from extreme weather to scarcity or lack of affordability of inputs like water and fertilizer. Commercially-driven R&D efforts are also supporting advances in bio-fortified foods, portable and easy-to-use health diagnostics, and new vaccines and drugs to tackle neglected diseases. Some examples of commercial R&D to facilitate local innovation and development are profiled below. The section on corporate philanthropy illustrates how companies can leverage their philanthropic dollars to support R&D for development.

General Electric is increasing its research and innovation in developing countries, some of which is directly able to serve the needs of low-income households and/or remote and underserved communities. The company has been instrumental in coining the term ‘reverse innovation’: “rather than follow the historical route of developing high-end products and adapting them for emerging markets, reverse innovation focuses on developing local technologies in these regions and then distributing them globally.”⁵¹ Products developed to date include a hand-held electrocardiogram (ECG) unit and a portable ultrasound machine, which cost a fraction of the standard machines to produce and use, and which can help to improve healthcare and save lives in remote rural locations and during humanitarian emergencies.

Sumitomo Chemical and **A to Z Textile Mills** have established a joint venture that combines Japanese R&D with African manufacturing to tackle malaria and create jobs. Sumitomo Chemical used the latest research and technology to develop the Olyset Net – a long-lasting insecticide net (LLIN) that was the first of its kind to be approved by the World Health Organisation. By incorporating the insecticide permethrin, a synthetic molecule similar to natural pyrethrin, into the fibres of the net, the company has been able to ensure a product that is long-lasting, reliable and durable, and that poses minimal toxic risk to humans. It guarantees its nets for five years. In 2003 it provided a royalty-free technology license to A to Z Textile Mills in Tanzania. In 2008, the two companies announced a 50:50 joint venture factory, which is producing over 20 million nets a year – more than half the global output of Olyset Nets. A to Z is now one of Africa’s largest employers, employing over 5,000 people, primarily women, and supporting over 25,000 people. In 2009, Sumitomo opened a stitching factory in Ethiopia and plans additional sewing facilities in Malawi and Uganda.⁵²

AstraZeneca opened a process research and development laboratory in Bangalore, India in March 2007, the company’s first such laboratory outside of Europe. Among other economic multiplier effects, the laboratory employs people in a range of functions, from highly qualified scientists to administrative and janitorial staff, and supports local business through procurement, distribution, and collaboration with other firms. In addition, the laboratory focuses on finding a cure for tuberculosis, a disease that primarily affects developing countries.⁵³

ViiV is a new joint venture launched in 2009 by **GlaxoSmithKline** and **Pfizer** that will pool the companies’ resources and expertise to tackle HIV/AIDS. The venture will use the revenue from 10 existing treatments to fund research and development into novel treatments – for example, medicines that overcome drug resistance, make patient compliance easier, or improve efficacy in certain types of patients, such as children.⁵⁵

Nestlé opened an R&D center in Abidjan, Cote d'Ivoire in 2009 with two objectives. First, to improve the quality of coffee, cocoa, and cassava grown locally, so the company could increase its procurement from local smallholder farmers. Second, to adapt its food products for success in West African consumer markets.⁵⁴ To-date, the center has distributed disease resistant and high-productivity cocoa and coffee plantlets and reduced mycotoxins in grains and legumes. In Uganda and Tanzania, Nestle has partnered with local coffee research institutes to improve the productivity, quality and disease resistance of locally produced coffee. It has also signed a partnership with the East Africa Dairy Development Board to improve milk standards across the value chain from farm to factory, involving some 179,000 local farmers. These R&D efforts can improve farmer competitiveness and incomes, while also securing quality products and creating factory jobs for existing and new plants in countries such as Ghana, Angola, Mozambique and the Democratic Republic of Congo. In 2010 the company announced plans to establish an R&D center in India which will focus on Popularly Positioned Products.

DuPont's Pioneer Hi-Bred business has been the principle technology donor to the Africa Biofortified Sorghum Project, an African-led consortium consisting of African scientists and leading African research institutions, supported by Africa Harvest and a variety of public and private donors. This initiative aims to tackle malnutrition by improving the nutritional value and digestibility of sorghum. DuPont's technology allows the cultivation of sorghum with higher levels of Vitamins A and E, micronutrients such as iron and zinc and essential amino acids.

Microsoft: Microsoft, along with other leading technology companies such as **Cisco, Intel** and **IBM**, has established R&D hubs in key emerging markets such as India, China and Brazil. In addition it has invested in decentralized local innovation centers and networks to identify and incubate innovations arising through its broader business and community ecosystems. It has over 110 Innovation Centers in more than 60 countries. In partnership with universities and other local institutions, these support individuals and entrepreneurs to build careers and businesses developing software that runs on Microsoft systems.⁵⁶ The transformative impact that information and communications technology has had in addressing a number of key development challenges is briefly illustrated in Box 10.

These few examples are the 'tip of the iceberg' in terms of the potential to harness the R&D capabilities of the private sector to support development goals. The landscape of what is possible – not only scientifically and technologically, but also economically – is shifting rapidly. There is growing recognition in both the development and the public research community of the potential to engage the private sector – and the need for innovative funding mechanisms and new models of collaboration to make this happen. There is also renewed focus on building local research capacity within developing countries and on engaging low-income beneficiaries themselves through more participatory research protocols. Conway and Waage conclude in their comprehensive report, "We tend to think of science and technology for development as a public sector activity, practiced largely by developed country scientists working on developing country problems. This model is changing rapidly. Public sector research will continue to play a key role, through new, international science innovation systems and continuing international research institutes. However, the important role of the private sector is emerging through our understanding of how innovation works. New models for PPPs are developing, which, in a supportive regulatory environment, allows industry to invest in science for development, even in situations of market failure."⁵⁷

BOX 10:

ICT4D: The transformative development impact of information and communications technology

Few technologies have had more of a transformative impact on enabling commercially viable inclusive business models, enhancing the effectiveness of non-governmental and nonprofit organizations, and strengthening public sector capacity to serve the needs of low-income populations than information and communications technology (ICT). In particular, the growing penetration of and connectivity between smart devices such as personal computers and mobile phones, software innovation, access to the Internet, and the emergence of off-premises or cloud-computing are fundamentally changing both the logistics and economics of what is viable in reaching and serving large numbers of low-income people.⁵⁸

IT companies from both developed and developing countries are not only developing commercially viable, high impact business models to serve low-income segments directly – they are also important enablers of other key services and service providers in the private, public and nonprofit sectors.

Enabling commercially viable inclusive business models

In terms of direct service business models, mobile phones in particular have had a profound impact on expanding opportunity and access for the poor, and in building a new generation of corporate leaders based in emerging economies. A 2009 survey by *The Economist* observes that, “the spread of mobile phones in developing countries has been accompanied by the rise of home-grown mobile operators in China, India, Africa and the Middle East that rival or exceed the industry’s Western incumbents in size. These operators have developed new business models and industry structures that enable them to make a profit serving low-spending customers that Western firms would not bother with.”⁵⁹

The survey goes on to say,

“... new phone-based services, beyond voice calls and basic text messages, are now becoming feasible because mobile phones are now becoming relatively widely available. In rich countries most such services have revolved around trivial things like music downloads and mobile gaming. In poor countries data services such as mobile-based agricultural advice, health care and money transfer could provide enormous economic and development benefits. Beyond that, mobile networks and low cost computing devices are poised to offer the benefits of full Internet access to people in the developing world in the coming years.” And, “...adding an extra ten mobile phones per 100 people in a typical developing country boosts growth in GDP per person by 0.8 percentage points.”⁶⁰

Enhancing the outreach, effectiveness and accountability of public sector and nonprofit service delivery

In addition to underpinning new direct service business models, innovations in ICT are also strengthening government and NGO capacity to meet the needs of the poor and to achieve other development goals.

In the case of e-government, the *Economist Intelligence Unit* observes,

“Governments in the emerging world are increasingly turning to technology to support their economic and social development goals, including things like strengthening competitiveness, improving quality of life, supporting disenfranchised population segments and ultimately boosting economic growth. While in the past the focus of technology access programs was largely on narrowing the digital divide – in other words boosting personal computer (PC) penetration – a new generation of programs is taking a significantly different approach, which governments believe will make them more effective and more cost-efficient.”⁶¹

Major IT corporations are establishing dedicated business units to serve public sector customers in developing countries, thereby enabling the governments to better serve their citizens while building a profitable business.

Likewise, NGOs and nonprofits are being able to do more with less by accessing leading-edge IT to improve the efficiency of their internal operations and their external service delivery capacity, to share technology platforms and to collaborate more effectively in delivering urgent humanitarian relief after natural and man-made disasters, and to raise public awareness and raise additional funds

BOX 10:

ICT4D: The transformative development impact of information and communications technology continued

through social networking via sites such as Facebook, Twitter and YouTube. Importantly, access to relevant and affordable IT is making it possible for NGOs and community-based organizations in some of the poorest and most remote locations to better serve the poor.

While some of these services are delivered to NGOs and nonprofits through commercial business units, many are provided through the increasingly competence-driven, strategically aligned and large-scale corporate citizenship, philanthropy and volunteering activities of leading IT companies.

Building IT ecosystems for poverty alleviation and development

ICT-enabled inclusive business models, e-government services and philanthropic ICT support for nonprofit organizations have together supported the emergence of ICT ecosystems that are transforming the ability of all key actors to address a range of vital development and poverty alleviation needs. Areas of ICT-enabled innovation that are particularly important to poverty alleviation include:

● **Access to health:**

IT-enabled healthcare ecosystems include inclusive business models, improved public sector and NGO capacity and public private partnerships that are accelerating R&D of life-saving medicines and hand-held diagnostic devices, improving ability to track and prevent pandemics, and catalyzing last-mile delivery solutions to improve the affordability of and access to healthcare services, especially in remote, low-income communities.

● **Access to education and training:**

IT-enabled platforms are making it possible to improve the quality and scope of education and training provided in both public and private schools, colleges and vocational training institutes, and to scale the reach and variety of teaching training and support programs.

● **Access to agricultural extension services and market information:**

Farmers can now receive weather information, market prices and price forecasts, and even highly customized growing advice – specific to their particular crops and climates – via their cell phones.

● **Access to money:**

IT-enabled inclusive business models that are driving mobile money and branchless banking to deliver microfinance services such as savings, loans, insurance and money transfers, to low-income households enabling them to purchase essential goods and services and invest in enterprise as outlined in the section on private financiers.

● **Access to social services:**

Government benefit payments are one type of transfer that can be made using mobile money; combined with partnership programs that make access to financing for computers and Internet access available to low-income populations, IT platforms are also enabling teachers to keep curricula up to date; small business owners to access government contracts; and public servants to learn the skills that will enable them to provide better service to their citizens.

● **Access to humanitarian relief:**

IT-enabled platforms are playing a crucial role in improving the speed and reach of emergency relief services after natural and man-made disasters and importantly, enabling public, private and nonprofit relief efforts to better coordinated and more accountable.

■ Converge solutions to poverty alleviation and climate change

Nowhere is science and technology innovation – and a combination of sound public policy and market-based solutions – going to be more important than in addressing the increasingly interconnected challenges of poverty alleviation and climate change.

While climate change threatens livelihoods and lifestyles in all countries, developing countries are the most vulnerable. And within these countries, low-income rural and urban communities are usually the most vulnerable of all. The World Bank estimates that developing countries: “would bear some 75 to 80 percent of the costs of damages caused by the changing climate. Even 2 degrees Celsius warming above preindustrial temperatures – the minimum the world is likely to experience – could result in permanent reductions in GDP of 4 to 5 percent for Africa and South Asia. Most developing countries lack sufficient financial and technical capacities to manage increasing climate risk. They also depend more directly on climate-sensitive natural resources for income and well-being. And most are in tropical and subtropical regions already subject to highly variable climate.”⁶²

The United Nations Development Programme (UNDP) is not alone in stating that, “climate change is the defining human development challenge of the 21st Century. Failure to respond to that challenge will stall and then reverse international efforts to reduce poverty.”⁶³ Many scientists and economists point to a ‘perfect storm’ of convergence between growing demands for energy, food and water at the same time that security of and access to these vital resources are being threatened. According to the U.K.’s Chief Scientist, John Beddington, “It is predicted that by 2030 the world will need to produce 50 percent more food and energy, together with 30 percent more available fresh water, whilst mitigating and adapting to climate change.”⁶⁴

These trends call for a concerted effort by leaders in all sectors to take an integrated approach to addressing the dual challenges of poverty alleviation and climate change. In short, there is a need to develop more climate resilient development strategies. The trends create risks, but also opportunities for private enterprises of all sizes - from large corporations to social entrepreneurs – to help find solutions that not only tackle poverty, but do so in a way that helps the poor to be more resilient in the face of a changing climate.

Professor Stu Hart talks of the business opportunities emerging from the ‘Great Convergence’ between the growth in clean technology and the growing focus on ‘base of the pyramid’ or inclusive markets. He comments,

“Emerging clean technologies, including distributed generation of renewable energy, biofuels, point-of-use water purification, biomaterials, wireless information technology, and sustainable agriculture hold the keys to solving many of the world’s global environmental and social challenges. And they represent enormous business opportunities for those companies able to develop the competencies needed to effectively commercialize these “leapfrog” green technologies. ... Given the size, growth and clean technology potential at the base of the pyramid, it offers the perfect “laboratory” for incubating [clean technologies]. The challenge is to combine the advanced technology of the “rich world” with the entrepreneurial bent and community

focus of the base of the pyramid. Learning how to build upon, and not over, ancient foundations and local knowledge is key. By creating a “Great Convergence” of clean technology at the base of the pyramid, China, India, Africa, Latin America and the other underserved communities around the globe can become the breeding ground for the Green Leap Revolution, to everyone’s benefit.”⁶⁵

Box 11 illustrates some of the major poverty-related challenges associated with climate adaptation in developing countries. From the perspective of large corporations, depending on the industry sector in question, there are opportunities to develop new technologies, products, processes, financing mechanisms and even business models to support climate adaptation, while also tackling poverty. Areas for engagement include the following:

- Improving energy and water access and efficiency for low-income households and communities through market-based solutions;
- Increasing agricultural productivity and resilience through new crop varieties, water management systems, information services, and so on;
- Improving land use management in agriculture and forestry;
- Developing and pricing ecosystem services;
- Using mandatory and voluntary carbon offset programs to support climate adaptation and resilience projects in developing countries;
- Participating in other innovative carbon financing mechanisms at the community, project, industry and global level;
- Delivering micro-insurance and other risk transfer financing solutions to help poor communities, small businesses and farmers manage risks and reduce their vulnerability to climate change;
- Protecting low-income producers and communities through the provision of social protection services, and economic diversification opportunities;
- Strengthening health systems and supporting programs in specific disease burden areas that will increase with climate change, such as malaria;
- Developing advanced building materials and making physical infrastructure more resilient and energy efficient in urban and rural environments;
- Supporting ICT solutions to improve climate risk mapping, data collection and analysis, early warning systems, disease surveillance and disaster preparedness.⁶⁶

Space does not permit detailed analysis of each of these areas of potential and existing private sector engagement. In all cases, however, a vanguard of social enterprises and large companies – especially in the life sciences, clean technology, information technology and financial sectors – are starting to explore solutions that include the poor as producers, employees and consumers, while also explicitly addressing climate adaptation and resilience. They are engaging at the level of individual company value chains and community-based initiatives. And they are investing at the level of multi-million dollar infrastructure, transportation, power generation, urban development and carbon capture and sequestration projects. In both cases, the funding involved is often a hybrid of public and private finance and/or commercial and social investment.

Box 11: Corporate action on climate adaptation in developing countries

THE ADAPTATION CHALLENGE

Decreased agricultural production and food security: Likely increases in drought-affected areas, desertification, salinization, losses in agricultural productivity and rural livelihoods, and growth in hunger and malnutrition.

Threats to ecosystems and biodiversity: Marine, ice-based, and tropical forest ecologies face negative effects, and sizable percentages of animal and plant species could face extinction.

Increased water stress and water insecurity: Due to changes in precipitation patterns, melting glaciers, increasing salinity, and high use by agriculture, consumption, and industry.

Threats to human health: Likely expansion in vector-borne diseases such as malaria and dengue fever, and water-borne diseases, plus heat waves and malnutrition will place increased pressure on weak public health systems and vulnerable low-income households.

Greater exposure to climate disasters: Rising sea levels, flooding, and more intense tropical storms could displace hundreds of millions of people and have catastrophic consequences for certain countries and communities.

Increased humanitarian crises, migration, and environmental refugees: As climate-affected populations have lower capacity to prepare, cope, and recover from climatic shocks and stresses.

Potential conflicts and instability: Potential competition over scarce resources, exacerbation of ethnic tensions, and weak governance.

THE BUSINESS CASE FOR ACTION

Managing and mitigating increased risks

Minimizing higher operating costs

Building resilience to systemic shocks in supply chains and international markets

Harnessing new business opportunities and markets

Responding to changing stakeholder expectations of business

Committing to good global corporate citizenship

TYPES OF BUSINESS ENGAGEMENT

Harnessing core corporate competencies and value chains:

Developing and disseminating commercially viable products, services, and technologies; and sharing risk management, scenario planning, and disaster preparedness tools along corporate value chains to increase climate change resilience in developing country enterprises and communities.

Investing in innovative public-private and hybrid financing mechanisms:

Ranging from donor-led global funds and major project coinvestments to climate adaptation insurance and banking for the poor, voluntary corporate carbon offset projects, investments in social enterprises, and philanthropic innovations.

Partnering strategically with civil society: Developing strategic alliances between business, nongovernmental organizations, research institutes, and community organizations.

Creating industry-wide sector initiatives: Working with competitors to establish common standards and spread technology and good practices.

Engaging in public policy advocacy and dialogue: Corporate efforts to strengthen public governance and institutions that support adaptation at the global, national, and city levels.

Adapted from: Nelson, Jane. *Corporate Action on Climate Adaptation and Development*. Chapter 13 in Brainard, Lael, Jones, Abigail, and Purvis, Nigel (eds). *Climate Change and Global Poverty: A billion lives in the balance?* The Brookings Institution, 2009

■ **Harness consumer spending in wealthy markets**

Corporations with well-known brands and marketing expertise can harness their consumers in wealthy markets to help make value chains more inclusive and sustainable. Such activities have been greatly enhanced in recent years through the use of social media and the ability to interact more efficiently with consumers and the public. Three of the inter-related goals of engaging consumers are to:

- **Raise awareness** by informing and educating consumers about development issues;
- **Mobilize financial resources** by selling products that either increase income directly for low-income producers in developing countries or raise funds to support development goals more broadly; and
- **Increase public advocacy** by inspiring consumers to become advocates and champions for global development or specific development challenges.

Consumer awareness, purchasing power and advocacy can be harnessed for global development through a variety of ethical trade initiatives and cause-related marketing programs.

Building inclusive markets and tackling poverty through trade: Ethical trade or fair trade initiatives help to build direct trade linkages between smallholder farmers and producers in developing countries and consumers in wealthier markets. They also raise consumer awareness of and demand for the products being produced thereby scaling and sustaining the market. In addition, many of them aim to spread responsible social and environmental standards along global supply chains. They are variously described as fair-trade, ethical trade, sustainable trade, product certification and labeling schemes. Leading examples include Transfair (now Fair Trade USA), the Rainforest Alliance, Rugmark, Utz Kapeh and the Marine Stewardship Council, to name just a few. Fair Trade Labelling Organisations International serves as a global coordinating body, setting international standards, organizing support for producers around the world, developing a global strategy for Fairtrade and promoting trade justice in global forums. Its members include 19 Labeling Initiatives covering 23 countries and three producer networks representing producers in Asia, Africa and Latin America and the Caribbean. Consumers willing to pay the price for certified, labeled products effectively help companies and intermediary organizations to raise producer incomes and also fund a range of financial services, business development support services and community investment activities for producers and their communities.

Raising resources for development through cause-related marketing: Companies with powerful brands can also harness consumer buying power to raise awareness and mobilize resources to support global development and environmental issues more broadly. This can range from consumers buying products associated with a specific cause to customers making donations linked to a particular brand and cause. Companies will often partner with a nonprofit organization to promote the cause and implement projects. Well-known initiatives include Product (RED), the GLAM campaign of the MAC AIDS Fund and the Change for Good program run by a number of airlines in partnership with UNICEF. These and other campaigns aim to harness the power of brand equity, world-class marketing, traditional and social media, and often celebrities and pop culture to raise consumer awareness and dollars for development. The examples of fair Trade USA and Product (RED) are profiled in Box 12.

BOX 12: Harnessing the power of the brand

Building inclusive markets and tackling poverty through trade: **The example of Fair Trade USA™**

Fair Trade USA™ was founded by social entrepreneur Paul Rice in 1998 as Transfair USA. It is a nonprofit social enterprise that engages with consumers, NGOs, partner companies, philanthropists and producer organizations to improve livelihoods and environmental performance in farming communities in developing countries. It does so by certifying producer associations, and then promoting the sale of Fair Trade certified products through the companies that are importers, manufacturers, distributors and retailers of these products. To date these have been agricultural products such as coffee, tea, cocoa, rice, sugar, produce, vanilla, flowers, honey and wine. The organization is now exploring garments certification for apparel and cotton goods.

Today, Fair Trade USA™ is the leading independent, third-party certifier of Fair Trade products in the United States. It works with more than 800 companies to certify some 6,000 Fair Trade products. These generated US\$1.2 billion in retail sales in 2009, part of a marked growth in the U.S. market for Fair Trade products despite difficult economic conditions. Over its 12 years of operation this model has enabled industry partners and consumers to generate an estimated US\$200 million in additional revenues to support community development and sustainable agriculture in farming communities in 70 countries. Well-known corporate partners include Wal-Mart, Starbucks, Whole Foods, Costco, Green Mountain Coffee, Ben & Jerry's, Divine Chocolate, Target, Dunkin Donuts, 1-800-flowers.com, and Equal Exchange, among others. In addition, Fair Trade USA™ is actively involved in media, outreach campaigns, Fair Trade shows and other communications and research activities to raise consumer awareness, influence policy makers, and help increase reputation and other business benefits for participating companies.

A core foundation of the business model is the setting of a fair price whereby farmer groups are guaranteed a price that covers the cost of sustainable production, a premium for community-selected development projects, and an additional price premium when their crops are certified organic. It also focuses on direct trade with farmers and their producer associations and the provision of commercial credit to farmers either direct from buyers or in association with financial intermediaries. In addition to promoting fair labor conditions, Fair Trade USA™ proactively supports the empowerment of farmers and workers through the formation of farmer cooperatives and worker councils and supporting farmer representation on global Fair Trade bodies. Financial support for community development and environmental management is also embedded into the business model.

Raising resources for global development through cause-related marketing: **The example of Product (RED)**

Product (RED) describes itself as a "simple idea that transforms our incredible collective power as consumers into a financial force to help others in need." It was launched at the 2006 World Economic Forum by Bobby Shriver and Bono with the goal of partnering with some of the world's most iconic brands to raise both consumer awareness and funds to support the Global Fund to Fight AIDS, Tuberculosis and Malaria and its projects in Africa.

Employing world class marketing, advertising and brand management expertise, and both traditional and new media, (RED) is working with brands such as American Express, Apple, Gap Inc., Nike, Emporio Armani, Motorola, Dell, Converse, Bugaboo, Hallmark, Penguin and Starbucks to promote and sell (RED)-branded products and services. Each time a consumer buys a (RED) product or service the company will give up to fifty-percent of the profit direct to the Global Fund. In turn, the Global Fund uses 100 percent of this money to finance HIV health and community support programs in Africa, with a focus on women and children. In addition to using their purchasing power, consumers are also able to donate money through INSPI(RED).

Campaigns such as ONE, social media such as facebook, twitter, myspace, Google and YouTube, and traditional print and television media are all active promotional partners for (RED). By harnessing commercial acumen with consumer purchasing, donations and advocacy, the initiative is able to offer a sustainable flow of funds from the private sector to the Global Fund.

In less than four years, (RED) partners and events have contributed over US\$150 million to the fund. By the end of 2010 more than 5 million people had been impacted by (RED) supported Global Fund grants in Ghana, Rwanda, Lesotho, South Africa, Swaziland and Zambia.

Source: Initiative and partner materials and websites

SUMMARY OF CORE BUSINESS OPERATIONS AND VALUE CHAINS

AN AGENDA FOR CORPORATE ACTION

Optimize the development impact of existing business operations

- Create decent jobs
- Produce safe and reliable products and services
- Generate local investment, income and taxes
- Invest in human capital and workforce development
- Support local enterprise development
- Transfer technology
- Implement global standards and business practices
- Build institutional and physical infrastructure

Promote responsible business standards and accountability

- Comply with national and international laws and regulation
- Support voluntary principles, codes and standards
- Spread international good practices along supply chains
- Report publicly on environmental, social and governance (ESG) performance
- Engage systematically with key stakeholders

Innovate to serve the poor through inclusive business models

- Develop direct business linkages with small and micro-enterprises
- Gear product development and delivery to meet essential consumption needs
- Share intermediary platforms and networks to expand reach
- Invest in pro-poor science and technology research
- Converge solutions to poverty alleviation and climate change
- Harness consumer spending in wealthy markets

I. LARGE CORPORATIONS

2. Enhancing corporate philanthropy, volunteering and community social investment

Companies can make a measurable contribution to development and humanitarian assistance through their corporate philanthropy, employee volunteering and community social investment activities. This is especially the case when philanthropic resources are effectively leveraged by aligning them to the company's core competencies and by working with others, including beneficiaries, to design, implement and evaluate philanthropic programs.

This does not suggest that corporate philanthropy should be a substitute for making markets work more effectively for the poor or for developing more inclusive and sustainable core business models. The greatest and most sustained role that a company can play in development is through its mainstream business operations and value chains – optimizing positive multipliers, minimizing negative impacts and proactively innovating to include the poor. Corporate philanthropy can play a useful complementary role to such efforts. It can also help to catalyze innovative new business models, products and services that directly serve the poor. In addition, it can provide valuable resources to support humanitarian assistance, strengthen community programs and the capacity of local leaders and institutions, and encourage research and education on global development issues.

Aggregated public data on the scale and impact of corporate philanthropy focused on supporting development goals remains very limited, whether through cross-border resource flows or domestically within developing countries. This is an area that warrants greater research and analysis. The following provides an overview and illustrative examples of some of the key questions, trends and approaches in this field.

There is a wide range of operating and governance models for a company's philanthropic, volunteering and community social investment activities. Some corporations establish independent nonprofit foundations that are governed separately to the company's other corporate social responsibility or corporate citizenship initiatives. Others have a foundation that is integrated into these activities. Many companies make all their philanthropic contributions directly from the business, either through the corporate head-office and/or through local business units. Most companies that opt to establish a foundation create one entity that operates globally, but a number create national or regional foundations in their major markets of operation. Some corporate foundations are endowed others are not.

In certain industry sectors, most notably healthcare and information and communications technology, in-kind or product donations comprise a major percentage of overall giving. A growing number of companies are also increasing their employee volunteering and community engagement activities relative to cash giving or product donations and are focusing on harnessing the core skills of their employees.

The field of philanthropy in general is undergoing some fundamental shifts many of which are relevant for corporate philanthropy. One has been the emergence of more strategic competence-led

approaches to leveraging philanthropic resources and more performance-based approaches to assessing their impact on the issues and institutions they aim to support. A growing number of companies are focused on achieving greater alignment between corporate strategy and societal need, what Michael Porter and Mark Kramer have termed ‘creating shared value’. They argue,

“Few companies have engaged operating management in processes that identify and prioritize social issues based on their salience to business operations and their importance to the company’s competitive context. Even fewer have unified their philanthropy with the management of their CSR efforts, much less sought to embed a social dimension into their core value proposition. Doing these things requires a far different approach to CSR and philanthropy than the one prevalent today. Companies must shift from a fragmented, defensive posture to an integrated, affirmative approach. The focus must move away from an emphasis on image to an emphasis on substance.”⁶⁷

Another shift underway is the emergence of new models of resource allocation and leverage. These range from venture philanthropy and program-related investments to online giving applications and impact investing, which are summarized in the section on private financiers. Linked to this is a mindset shift towards more of a social investment approach to philanthropic giving, with well-defined criteria for assessing performance and impact for both beneficiaries and donors, versus a more traditional charity mindset. The latter remains important, especially in times of humanitarian crisis and for many individuals and faith-based groups, but for corporate philanthropy a social investment model makes sense.

Mathew Bishop and David Greene comment in their book *philanthro-capitalism*: “As they apply their business methods to philanthropy, philanthrocapitalists are developing a new (if familiar sounding) language to describe their businesslike approach. Their philanthropy is ‘strategic’, “market conscious”, “impact oriented”, knowledge-based”, often “high engagement”, and always driven by the goal of maximizing the “leverage” of the donor’s money.”⁶⁸

Corporate philanthropy is not without its critics. Some of the questions related to its role in supporting poverty alleviation and development include the following:

Can corporate philanthropy achieve scale?

There is criticism that corporate philanthropy represents a tiny percentage of a company’s profits and cannot achieve the scale of commercial, market-oriented business models or public sector funding when it comes to reaching low-income communities and households. In relative terms this is the case. Philanthropic activities represent a small component of the overall development impact of most large companies. They are usually dwarfed by the impact of the company’s mainstream business operations and value chains, accounting for about 0.5 to 5 percent of operating or pre-tax profits in most cases. Yet in absolute terms, the contribution of corporate philanthropy to humanitarian relief efforts and longer-term development can be substantial, both for individual companies and collectively.

Although aggregated statistics are not available, evidence suggests that the amount of corporate philanthropy going to developing countries from global corporations in the form of financial grants, product donations, employee volunteering and other in-kind contributions, adds up to some US\$ 8-10 billion annually. *The Index of Global Philanthropy and Remittances* provides the most comprehensive analysis currently available. This is an annual guide that reviews the sources and magnitude of private philanthropy and remittances going from developed to developing countries.⁶⁹ It has been produced by the Hudson Institute's Center for Global Prosperity every year since 2006. Initially focused on private resource flows from the United States, the index is now cooperating with a variety of international partners to develop a global database.

In terms of corporate philanthropy flows from the United States, the Hudson Institute estimates that U.S. corporations made direct philanthropic contributions of about US\$7.7 billion to developing countries in 2008.⁷⁰ This data also draws on analysis by the Committee Encouraging Corporate Philanthropy and the U.S. Council on Foundations. By comparison, the United Nations Development Programme (UNDP's) total income for the same year was about US\$ 5.5 billion, some 80 percent of which was earmarked.⁷¹

Table 1 shows overall figures for private philanthropy from the United States to developing countries in 2008, totaling US\$37.3 billion (an increase from 2007 private philanthropic flows of US\$36.9 billion despite the financial crisis). This exceeds U.S. Official Development Assistance (ODA) of US\$26.8 billion by more than US\$10 billion. Private philanthropy from the United States alone in 2008 was equivalent to nearly one third of the total Official Development Assistance (ODA) from all 23 governments that are members of the OECD's Development Assistance Committee (DAC).

Although data is not available, it is likely that some of the US\$11.8 billion from private and voluntary organizations (PVOs) is also sourced from corporate donors and from companies' employee matched giving programs so that combined figures for direct and indirect U.S. corporate giving to developing countries are likely to be higher than US\$7.7 billion.

U.S. Private philanthropy to developing countries, 2008 (billions of US\$)	
Foundations	\$ 4.3
Corporations	\$ 7.7
Private and Voluntary Organizations	\$11.8
Volunteerism	\$3.6
Universities and Colleges	\$1.7
Religious Organizations	\$8.2
TOTAL	\$37.3

Source: *The Index of Global Philanthropy and Remittances 2010*. The Hudson Institute.

Similar aggregated statistics are not available for Europe or other parts of the world, where public reporting requirements for corporate and private foundations are less demanding. The European Foundation Center (EFC) has about 200 members, mostly from Europe and comprised of private, family and corporate foundations. A survey undertaken by EFC to review European foundations working in international development estimated that in 2005 the foundations surveyed allocated about US\$600 million to 126 countries, although only 29 of these countries met the UN categorization of Least Development Countries. Of the ten leading European foundations cited in the research, four were corporate foundations – the Deutsche Bank, Shell, Volkswagen and Rabobank Foundations. Similar to private foundations in the United States, some of the other major European foundations, such as the Wellcome Trust, Sigrid Rausing Trust and Gatsby Charitable Foundation, were initially endowed by large corporations and/or successful business leaders.⁷²

In short, although corporate philanthropy is a fraction of the foreign direct investment that flows to developing countries from global corporations, it is still fairly substantial, both directly and indirectly. And it is likely to grow as more global companies invest in developing economies. This is in addition to local philanthropy, product donations and volunteering activities undertaken by domestic companies and local business units. Furthermore, much of this philanthropy is targeted specifically at tackling social and economic development challenges, especially health, education, economic empowerment and entrepreneurship, and at supporting humanitarian relief and conflict resolution.

Also of relevance in terms of achieving scale, a number of corporations have established strategic flagship initiatives to ensure greater focus and leverage of their core competencies in selected geographies and/or issues. Examples such as the Cisco Networking Academies, Microsoft's Unlimited Potential initiative, Intel@Teach, BMS's Secure the Future initiative, ExxonMobil's Women's Economic Opportunity initiative, Citi's Microfinance program, Merck's Mectizan Donation Program and Diageo's Water of Life initiative, to name a few, demonstrate that it is possible to achieve scale or to replicate in many locations through more strategic and competence-led corporate philanthropy.

Box 13 illustrates these examples. Each vignette looks at just one initiative led by one company. They do not cover the company's entire philanthropic, volunteering and community engagement impact, let alone its broader 'development footprint' through its core business activities and engagement in policy dialogue. Nor do they cover collaborative initiatives between the companies. Microsoft, Cisco and Intel, for example, cooperate strategically in a number of joint initiatives ranging from the Jordan Education Initiative to collaborative efforts in schools in Kenya, Tanzania and Egypt all aimed at achieving greater scale and leverage than each company and its partners could do alone. The individual and combined outreach of these companies' philanthropic initiatives can make a meaningful contribution to poverty alleviation and development.

BOX 13: 'Snapshots' of the reach of selected corporate philanthropy programs

Each of these examples offers a 'snapshot' of just one program selected from a portfolio of programs run by the same corporation. As such they do not represent the company's total philanthropic contribution. The purpose is to provide some sense of the potential reach and scale of flagship corporate philanthropy programs, the vast majority of which are implemented through networks of hundreds of nonprofit, government and other partners. Most of the initiatives profiled have undertaken or will be undertaking independent evaluations of their impact. They all have a strong focus on developing countries.

HARNESSING INFORMATION TECHNOLOGY FOR DEVELOPMENT

Through local community technology centers – Microsoft:

Since 2003, the Microsoft Unlimited Potential Community Technology Skills program has worked with over 1,500 non-governmental partners in 106 countries, to support 50,000 community technology centers that have reached an estimated 170 million people. The community technology centers are just one component of the company's global Unlimited Potential initiative. The program focuses on three areas to facilitate sustained social and economic development for the "next 5 billion": it combines content, training and delivery to transform education; it convenes government, investors, entrepreneurs and academics to foster local innovation; and it provides ICT hardware, software and skills curricula to enable jobs and opportunities.

Through information technology training academies – Cisco:

Launched in 1997, Cisco's Networking Academy program helps students to prepare for information technology and networking careers by teaching them how to design, build and manage computer networks. The program now operates through more than 9,000 academies in over 160 countries working in partnership with a wide variety of public and private sector partners. An estimated 900,000 students develop ICT skills through the program each year, with some 2.6 million students having passed through since the program was established. It receives about 1.5 million hits a day on its website, which provides materials and technical assistance to instructors and students.

Through building the capacity of

educators – Intel: The Intel® Teach Program aims to improve the effectiveness of educators by using a train-the-trainer model and a content localization strategy to help teachers integrate technology into their lessons and to improve problem-solving and collaboration skills among their students. The program has trained more than seven million teachers in over 60 countries. SRI International and the Education Development Center serve as independent evaluation partners.

The company focuses in particular on improving science, technology, engineering and math education, of importance its own business needs and development needs more broadly. In 2008, it made a US\$120 million commitment over ten years to further this goal.

SUPPORTING ECONOMIC EMPOWERMENT

Through investing in microfinance – Citi:

The Citi Foundation's program on microfinance and microenterprise has granted some \$70 million to support 350 microfinance programs and organizations across 57 countries. It has also played a crucial role in building the microfinance movement since its inception over the past two decades. The company's contribution has included the provision of seed funding to some of the pioneering and now most successful microfinance institutions and supporting a number of them to become commercially viable. It has helped to build or strengthen intermediaries, alliances and networks such as the Consultative Group to Assist the Poorest (CGAP) and supported capacity building efforts in the field. And it has been instrumental in mainstreaming related services into Citi's own core business operations. Today, the company operates a commercially viable business unit focused on providing services to microfinance intermediaries in addition to its ongoing philanthropic support to this sector.

Source: Company and partner materials

BOX 13: 'Snapshots' of the reach of selected corporate philanthropy programs continued

Through investing in women entrepreneurs – ExxonMobil:

Since launching its Women's Economic Opportunity Initiative in 2005, the ExxonMobil Foundation has made grants totaling over \$20 million to provide women with training, resources and support structures aimed at helping them expand their economic opportunity and leadership platforms. It partners with organizations such as Africare, Vital Voices and the International Center for Research on Women to focus on three strategic areas: building the next generation of women leaders and entrepreneurs; removing barriers to women's economic participation; and identifying and deploying technologies for women. To-date the program has enabled women from over 60 developing countries to participate in leadership development and skills training programs. Country-level programs have been implemented in Angola, Chad, Colombia, Egypt, Equatorial Guinea, Indonesia, Malaysia, Kazakhstan, Nigeria, Thailand and Qatar. The program is also designed so that the thousands of women who have participated directly in turn train thousands more in their own communities.

IMPROVING ACCESS TO HEALTH, NUTRITION AND WATER

Through essential product donations –

Merck: The Merck Mectizan Donation Program was one of the first large-scale global health initiatives of its kind. It was launched in 1987 to donate the drug MECTIZAN (ivermectin) to treat onchocerciasis, or river blindness, in countries where the disease was endemic. Through a multi-sectoral partnership, involving the WHO, the World Bank and UNICEF, as well as ministries of health, dozens of non-governmental development organizations and local communities, Merck has donated more than 2.5 billion tablets of MECTIZAN (worth some \$3.9 billion), with nearly 700 million treatments approved since 1987. The program currently reaches more than 80 million people in Africa, Latin America and the Middle East (Yemen) each year. Additionally, 300 million treatments for lymphatic filariasis (LF) have been approved, nearly 90 million treatments approved in 2008 alone.

Through supporting women and children with HIV/AIDS – Bristol Myers Squibb:

BMS's 'Secure the Future' initiative was launched in 1999 to provide care and support for women and children with HIV/AIDS. To-date the company has committed \$150 million through more than 230 grants. Over the decade the initiative has transitioned from broad-based grant making for medical research, community treatment and education to a third phase launched in 2008 that is focused on technical assistance and skills transfer aimed at replicating lessons and successful models and at building the management and leadership capacity of local NGOs. The program's geographic focus has expanded from 5 to 12 countries. Among other efforts, the initiative is supporting clinical centers of excellence focused on children's HIV/AIDS, a pediatric AIDS corps to

train local doctors and an online NGO Training Institute, which offers curricula on management, governance, leadership and assessment. In all locations it aims to mobilize community resources and capacity to ensure local ownership and sustainability.

Through extending access to clean water –

Diageo: As a beverage company, Diageo relies fundamentally on access to clean water. Its flagship Water of Life program focuses on advancing this goal for local communities in developing countries. Established in 2000, the program made a commitment to support the MDGs in 2006 by launching a "1 million challenge" initiative to extend access to clean water to 1 million new people in Africa every year until 2015. The effort is driven from the bottom-up. It is funded mainly by local business units, which contribute 1 percent of net operating profit after tax to community engagement activities of which half is dedicated to water. The business units work with local nonprofit organizations and community partners in identifying local needs and priorities, utilizing local resources, and cooperating on evaluation and impact assessment. The global Diageo Foundation provides additional funding alongside employee contributions and fundraising efforts around the world. To-date some 4.3 million people have been reached.

Can corporate philanthropy be sustained?

Corporate philanthropy is criticized for not being as sustainable as commercially viable business models and too dependent on the vagaries of changing executive priorities and economic conditions. This is correct in the sense that most philanthropic dollars are disbursed as grants and don't generate a self-sustaining rate of return or even achieve cost recovery. Philanthropy programs usually require either a well-managed endowment or regular infusions from the parent corporation to be sustained. This is starting to change with the emergence of venture philanthropy models and the use of additional financing instruments by corporate and other foundations including loans, challenge funds and guarantees, all of which help to leverage philanthropic resources and in some cases create self-sustaining financial flows.

There are also examples of major corporations maintaining the same or similar levels of philanthropic funding and/or continuing the same programs over several decades. The strategic philanthropy programs profiled in Box 13 offer a small sample. Most of these have been in existence for a decade or longer. As such they probably match the duration of similar programs led by bilateral development agencies and governments, many of which change with changes in political leadership. Likewise, large domestic companies and the business units of multinational companies based in developing countries often have longstanding community engagement and philanthropy programs, some of which have been ongoing for fifty years or more. Many of these programs have a traditional charitable focus and their impact on local development, capacity building and poverty alleviation may not as effective as it could be, but the practice of philanthropy is well established in many large companies based in developing economies.

Corporate philanthropy from the majority of large corporations declined during the 2008-2009 global financial crisis, but it did not plummet as dramatically as many had predicted. The Committee Encouraging Corporate Philanthropy (CECP) tracks and benchmarks the corporate philanthropy data of some 160 global corporations, most but not all of them from the United States. Its *Corporate Giving Standard* provides an online database providing comparative data that CECP has been collecting since 2001.

In order to track year-on-year trends more accurately, CECP also analyzes an inflation-adjusted, matched-set of 95 companies, which have responded to the survey annually since 2006 and which account for 80 percent of the total giving in CECP's database. Nearly half of this group is Fortune 100 companies. While median total giving declined, aggregate total giving from these 95 companies rose in 2009, as a result of factors such as dramatic increases by a small group of companies, increased non-cash contributions from pharmaceutical companies, expanded giving budgets due to mergers and acquisitions, and increased employee participation in matched-giving programs. In summarizing the survey results, CECP noted:

“Overall, 60 percent of the matched-set companies gave less than in 2008, with 40 percent declining by over 10 percent. ... Still, 40 percent of the companies in the CECP matched-set gave more in 2009 than they did in 2008, some of which increased their giving so significantly that the aggregate of total giving rose to \$9.93 billion. This aligns

with the results released today by *Giving USA*, which found that corporate giving rose by 5.9 percent, to within 1 percent of its pre-recession level.⁷³

Most of this corporate philanthropy remains in the United States or other OECD countries, rather than going to developing countries. CECP has started to track the flows to developing countries. A matched set of 26 corporations showed contributions to developing countries of US\$ 885 million in 2008 and US\$953 million in 2009. Healthcare companies and non-cash product donations dominate these figures.

Do philanthropic contributions match business investment in developing countries?

The allocation of corporate philanthropy rarely matches the global footprint of a company's revenues. Research by CECP shows that in a matched-set of 65 U.S. companies, international giving as a percentage of total giving has grown from 11 percent in 2006 to 14 percent in 2009. Although the percentage is gradually increasing, a number of these companies are earning far greater percentages of their revenues from abroad – over 70 percent in some cases. Most of this international giving also occurs in other OECD countries rather than in developing countries. A recent sample of foundation giving in Europe toward global development suggested that European foundations, including but not only corporate foundations, disbursed about 16 percent of their funding for development purposes in 2007.⁷⁴

As U.S. and other multinational corporations earn more of their business revenues from developing countries there may be pressure to shift philanthropic dollars in the same direction. Given longstanding responsibilities to home-base communities going back a hundred years for some companies, this is easier said than done. This is all the more reason for companies to look for opportunities to leverage corporate philanthropic assets with other development resources from governments, private foundations and philanthropists, and in some cases remittances and Diaspora funds.

It is also worth noting that some corporations have supported substantial, multi-year philanthropic commitments in developing countries where they have minimal direct business interests or operations. Cisco has partnered with the UN for example to spread the Cisco Networking Academy program to the Least-Developed Countries. Abbott, Merck, General Mills, SAP and Microsoft have all partnered with governments and donors to support local capacity building and technology transfer efforts in selected African countries where they do not have major business interests. Having said that, the vast majority of corporate philanthropy goes to developing countries and communities where the companies in question have business interests.

How measurable and accountable is corporate philanthropy?

Corporate philanthropy is criticized for not being as performance driven and transparent as it could be, especially given the focus that parent companies place on assessing the performance of their core business activities and increasingly on publicly reporting their non-financial performance. This is a justified critique, although more rigorous analysis and reporting are underway in a growing number of large corporate foundations and philanthropy departments.

Credible assessment of performance and development impact is not a problem that is unique to corporate philanthropy. It remains a challenge for most public donors, both bilateral and multilateral development agencies, and for private foundations and other social change organizations. David Bonbright, CEO of the Keystone initiative, talks of, "...the fatal flaw at the heart of our profession [of social purpose organizations] – the generally inadequate informational basis for understanding the difference we make."⁷⁵ Corporate philanthropy faces a similar measurement and accountability challenge. And in addition to measuring and accounting for social impact it also has to demonstrate business benefit to justify to shareholders the allocation of corporate profits and resources for philanthropic purposes.

A 2009 study by the European Development Center, *Emerging Non-State Actors in Global Development*, commented: "...there are still large information deficits about the scope of engagement of emerging non-state actors and about the nature of their impact on development outcomes. While actors such as global programmes and the Gates Foundation have invested in evaluating the effectiveness of the programmes they fund and publish progress reports, information on the philanthropic activities of firms in developing countries remains especially limited."⁷⁶

Over the past decade a growing number of corporations have started to place greater focus on the measurement, impact evaluation, reporting and benchmarking of their philanthropic programs. This process is being supported and standardized by initiatives such as CECF's Global Giving Standard, the Keystone initiative, the U.S. and European Councils on Foundations, the London Benchmarking Group, the Center for Effective Philanthropy, and the emergence of an entire new field of corporate responsibility rankings and indices, consulting firms and corporate responsibility networks.

There are also untapped opportunities to share tools and learning between work that is being undertaken by traditional donors to measure development impact and work to assess the contribution of corporate philanthropy to social and economic development.

Do companies leverage their philanthropic dollars effectively?

Another critique is that corporate philanthropy is rarely leveraged as effectively as it could be by large corporations. It is argued that philanthropic activities are too often divorced from the company's mainstream skills, competencies and networks thus limiting their potential scale and impact. There is also criticism that companies focus too much on their own branded philanthropy programs in order to gain reputation benefits and miss opportunities to partner with other companies and actors to achieve greater impact for development. And there is the view that philanthropic dollars could be leveraged more effectively if they were not restricted to making grants.

In recent years corporations have started to address these issues. They are starting to align their philanthropy more closely to corporate strategies and to harness their core competencies, especially their people, products, processes and networks, in addition to their profits, to enhance the impact of philanthropic activities. Many are working in strategic partnerships and increasingly in multi-company alliances with other key development actors. Some examples of these alliances are profiled in Part Four of the report.

In a few pioneering cases, companies are starting to move beyond grant-making to use their financial philanthropic assets for program-related investing, social venture capital and the creation of prizes, innovation or challenge funds. The emergence of venture philanthropy and impact investing is leading to a blurring of the boundaries between philanthropic and commercial finance and between private and public funds. Some of the key characteristics of venture philanthropy are outlined in the box below. The burgeoning field of impact investing, which is estimated to represent some US\$50 billion a year, is summarized in the section on private financiers. Legal restrictions on the use of charitable funds in many countries limit such financial innovation and this is an issue that warrants further attention in ongoing efforts to leverage more and better financial resources for development.

Defining venture philanthropy

The European Venture Philanthropy Association (EVPA) offers the following definition and characteristics: “Venture Philanthropy is a field of philanthropic activity where private equity / venture capital models are applied in the non-profit and charitable sectors. There are many different forms of venture philanthropy but the EVPA believes it can be characterized as:

- The active partnership, or engagement, of donors, volunteers and/or experts with charities to achieve agreed outcomes such as organizational effectiveness, capacity building or other important change;
- The use of a variety of financing techniques in addition to grants, such as multi-year financing, loans or other financial instruments most appropriate for a charity’s needs;
- The capability to provide skills and/or hands-on resources with the objective of adding value to the development of a charity;
- The desire to enable donors to maximize the social return on their investment whether that be as a financial donor or as a volunteer of time and expertise.”

Source: The European Venture Philanthropy Association

The following table illustrates some of the shifts that have occurred in corporate philanthropy and community investment over the past two decades toward a more strategically aligned and competence-led approach.

From “check book” philanthropy to social partnerships

	OLD PARADIGM GIVING: One-way	NEW PARADIGM PARTNERSHIPS: Strategic
PHILOSOPHY	<ul style="list-style-type: none"> • Discretionary giving • Corporate obligation 	<ul style="list-style-type: none"> • New business discipline • Societal opportunity and corporate strategy
METHODS	<ul style="list-style-type: none"> • Formulaic • Responsive • Conventional • Incremental • Risk averse 	<ul style="list-style-type: none"> • Opportunistic • Anticipatory • ‘Out of the box’ • Transformative • Risk-taking
DECISION-MAKERS	<ul style="list-style-type: none"> • CEO and spouses • Board members • Department of ‘good deeds’ 	<ul style="list-style-type: none"> • Line business managers • Stakeholders • Core strategic competence
PURPOSE	<ul style="list-style-type: none"> • Conformity • Good will 	<ul style="list-style-type: none"> • Differentiation • Results and reputation
RECIPIENTS	<ul style="list-style-type: none"> • The ‘usual suspects’ 	<ul style="list-style-type: none"> • New social entrepreneurs and innovators
REACH	<ul style="list-style-type: none"> • Local • Transactional 	<ul style="list-style-type: none"> • Local and global • Systemic
IMPACT	<ul style="list-style-type: none"> • Minimal and not measured 	<ul style="list-style-type: none"> • Potentially high, leveraged and measured
EMPLOYEE INVOLVEMENT	<ul style="list-style-type: none"> • Minimal and ad hoc 	<ul style="list-style-type: none"> • Higher and competence-led
RELATIONSHIP MANAGEMENT	<ul style="list-style-type: none"> • One way • Bureaucratic • Paternalistic 	<ul style="list-style-type: none"> • Strategic partnership • Entrepreneurial • Mutual learning
NEXUS WITH CORE COMPETENCIES	<ul style="list-style-type: none"> • Peripheral 	<ul style="list-style-type: none"> • Linked to core business purpose, competence and in some cases competitive context

Source: Adapted from Jackson, Ira and Nelson, Jane. *Profits with Principles: Seven strategies for creating value with values*. Currency/ Doubleday, 2004.

Regardless of the industry sector or the thematic focus of their philanthropic activities, there are a number of cross cutting actions that all companies can take to leverage their philanthropic resources with the goal of enhancing development impact while also creating business value. Eight key actions are as follows:

- i) Align core competencies with specific development goals
- ii) Mobilize skilled volunteers for development projects
- iii) Crowd-source solutions through online platforms
- iv) Seed-fund innovation and entrepreneurship
- v) Strengthen the capacity of local leaders and institutions
- vi) Connect humanitarian relief with long-term recovery and resilience
- vii) Fund research, public awareness and advocacy for development

(i) Align core competencies with specific development goals

When companies identify a strategic fit between specific development goals and their own core competencies, skills, products, services and networks the contribution of corporate philanthropy can be high in terms of both development impact and business benefit. In such cases philanthropy can also provide seed funding for social enterprises or catalyze new hybrid business models within the company itself that are capable of addressing development challenges in a self-sustaining manner.

Most of the examples profiled in this section illustrate competence-led approaches. Such approaches include:

- **Information and communications (ICT)** companies harnessing their technology, skills and business ecosystems for health, education, training and entrepreneurship projects or disaster relief efforts that can be made more efficient, effective and accountable by the application of ICT.
- **Healthcare companies** engaging in strategic product donations and efforts to strengthen health systems.
- **Banks, insurance companies and investment institutions** supporting financial literacy, community finance, microfinance, small enterprise finance, environmental finance and other innovative financing models, some of which may become commercially viable over time.
- **Energy companies and water and electricity utilities** supporting innovative off-grid and/or renewable energy options and investing in local energy entrepreneurs to serve low-income or remote communities.
- **Food companies** supporting food security, nutrition and water initiatives from strengthening smallholder farmers and rural communities along specific commodity value chains to humanitarian programs such as school feeding initiatives and disaster relief.
- **Transportation and logistics companies** supporting initiatives to improve the coordination and delivery of humanitarian assistance.
- **Large infrastructure, mining, oil and gas projects** financing and building the capacity of community-based entrepreneurs who then have the quality needed to tap into the companies' local content programs.
- **Professional services firms** mobilizing consultants, lawyers, accountants and advisers and other industries lending technical and scientific specialists to work on development projects or in nonprofit organizations that are lacking these essential capabilities.

In addition to providing sector specific competencies and technical skills, almost all large corporations have skilled employees in functional areas such as finance, project and information management, human resources, logistics, and marketing. All of these are in high-demand and low supply for many nonprofit organizations and often for public institutions in developing countries.

There is also untapped potential for companies from different industry sectors to combine their core competencies and philanthropic resources to support more systemic initiatives. These can include efforts to strengthen health and education systems, to implement community wide approaches, such as the Millennium Cities and Villages approach, and to improve disaster relief and resilience efforts. Healthcare, agribusiness and financial companies, for example, are starting to partner with ICT companies to extend the reach, efficiency and accountability of their projects. Agribusiness and financial

service companies are working together on projects to improve the financial security and resilience of smallholder farmers, small agro-dealers and rural communities. Professional services firms are working on a pro-bono or low-cost basis, as well as commercially, with nonprofits and companies in other industries to strengthen the development impact of their programs. Often these alliances are one-to-one partnerships between two companies, but a growing number are bringing together groups of companies in system-wide collaborative efforts. Some of these broader collaborative efforts are profiled in Part Four of the report.

There is a blurring of the boundaries between competence-led corporate philanthropy and some of the more inclusive, commercially viable business models that were described in the previous section. In many cases philanthropic funds or social venture capital, either from the company itself or from other private and public donors, are essential to overcome the organizational, market or governance barriers to making these inclusive business models commercially viable. Even the largest corporations may require various forms of seed funding or ongoing philanthropic, donor or public support to start or scale inclusive business models. Corporate foundations could play much more of role in providing such support, in addition to the role of other development actors in providing such support, which is profiled in Part Three.

(ii) Harness volunteers for development projects

Employee volunteering and community engagement programs have a longstanding tradition in many developed economies, especially the United States. Some corporations have developed global programs that either focus on supporting development goals and/or engage employees based in developing countries. There are numerous models that companies use to support employee engagement and volunteering. They range from board-based programs aimed at engaging as many employees as possible, to leadership-oriented fellowships and seconding high-potential employees to nonprofit organizations, and from generic volunteering to efforts that explicitly harness the core competencies and skills that employees use in the workplace.

The most common model is initiatives that encourage all employees to donate money and/or to volunteer their time and skills to support projects either in their local communities or through the company's flagship citizenship program or to global relief efforts at times of humanitarian disasters. Companies often support their employees in these activities through 'matched giving', 'payroll giving' or 'dollars for doers' programs that match employees' financial contributions or provide financial support for their volunteering efforts. Many companies also offer paid time off work or dedicated volunteer days, online platforms to match employees to projects and nonprofits, support for employee affinity groups, and internal recognition and award programs. In some cases these broad-based programs are global and support the volunteering activities of all employees, although many are still focused on the company's home country or a few major markets.

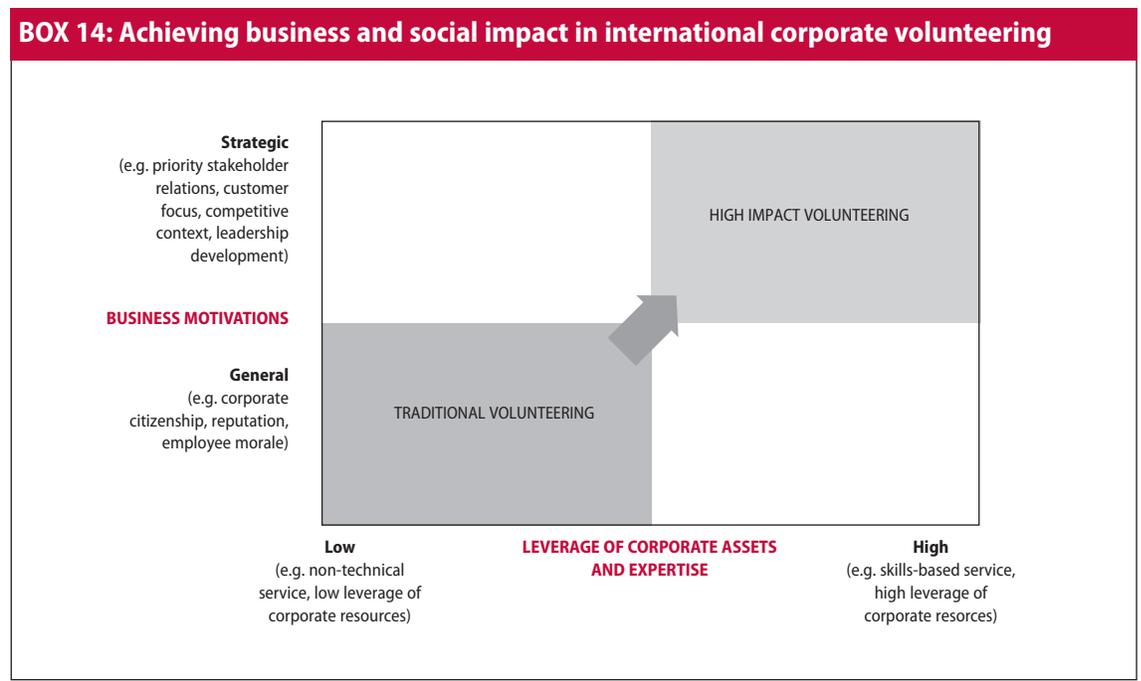
Employees may be encouraged to use their skills and core competencies to support clearly defined initiatives that align with the company's overall citizenship strategy or simply to volunteer in whatever way and for whatever organizations they chose. In some cases, companies are actively supporting their employees to become social entrepreneurs, establishing and leading their own social enterprises, while still remaining with the company.

Another approach being adopted by some global companies is skills-based leadership or fellowship programs targeted at engaging top-performing staff selected on a competitive basis. These are often implemented in addition to the broader-based volunteering programs that aim to engage all or large numbers of employees. A few examples of leadership initiatives that are based on employee engagement and aimed at supporting global development goals are outlined in Box 15. Some companies are also starting to collaborate on such efforts. Dow Chemical, Citi, Coca-Cola and Accenture Development Partnerships, for example, joined forces in 2009 to create the Global Sustainability Network. This is a collaborative platform for companies, NGOs and development agencies to leverage their combined employee engagement, technical and operational resources in a more effective way by working together.

These two broad models of employee engagement map to the following models for international corporate volunteering, which have been identified by FSG Social Impact Advisers in a project with the Brookings Institution:⁷⁷

- *Local Service:* In which employees based in countries outside headquarters are supported to volunteer in programs in their own local communities; and
- *Cross-Border Service:* In which skilled employees travel abroad to volunteer.

The more volunteering is based on employees' core competencies and skills the more likely it is to deliver social benefit as well as business benefits such as building leadership skills, teamwork, corporate reputation and in some cases even new markets. Box 14 illustrates the strategic framework FSG propose for the transition toward more competence-led volunteering that aligns social needs and impact more closely with business interests and impact.



Source: "Volunteering for Impact – Best Practices in International Corporate Volunteering" by Greg Hills and Adeeb Mahmud, FSG Social Impact Advisers, September 2007

Box 15: Examples of employee engagement programs that support development

The following are examples of skills-based leadership and fellowship programs that bring together high-potential employees in global companies to support development projects. Each of these initiatives is based on a foundation of employee engagement and the sharing of technical or professional skills on a non-commercial basis. At the same time, in all cases there is long term potential for the company to build future markets as well as strengthen stakeholder relationships, enhance reputation and develop the leadership capacity of key employees.

IBM's Corporate Services Corps (CSC):

The CSC program was launched in 2008 with the goal of developing leadership skills and addressing socio-economic challenges in emerging markets worldwide. The program sends cross-functional teams of high-potential IBM employees to work on projects in partnership with governments, nonprofit organizations and inter-governmental agencies in developing countries. In most cases the engagement involves harnessing information technology and technology skills to support economic development, capitalizing on the core competencies that the employees already possess. In addition to leveraging their skills to support development projects, the employees gain the opportunity to develop new perspectives, expertise, leadership capabilities and networks, along with the ability to work across traditional cultural and functional boundaries. Since 2008, more than 700 skilled IBM employees from some 50 countries have participated in CSC. Over 5,500 employees have applied for the program. Projects have been completed in Ghana, Romania, Tanzania, the Philippines and Vietnam tackling challenges such as water quality and disaster preparedness. Although assignments are only several months in duration, the company aims to sustain long-term relationships with implementing partners to ensure continuity and scale over time. In 2010, IBM teamed up with USAID to create an Alliance for International Corporate Volunteerism, which aims to make it easier for smaller companies to engage in similar programs.

Pfizer's Global Health Fellows: Established in 2003, the goal of this program is connect Pfizer employees with programs to strength health systems in the developing world. People are selected on a competitive basis to fill clearly defined positions with NGOs and multilateral organizations that last for up to six months. Partner organizations have included African Medical and Research Foundation (AMREF), Africare, Family Health International, Health Volunteers Overseas, Infectious Diseases Institute, Institute for OneWorld Health, International AIDS Vaccine Initiative (IAVI), International Rescue Committee, International Trachoma Initiative, Populations Services International, USAID WaterAid and PAHO. The partner organizations identify the needs and design the actual work plan for each fellow, with a strong focus on local capacity building and skills transfer, and the company covers expenses. To date some 200 fellows have been selected to work in 38 countries. They have included Pfizer physicians, nurses, epidemiologists, laboratory technicians, marketing managers, financial administrators, and health educators.

Source: Company and partner materials

Box 15: Examples of employee engagement programs that support development continued

KPMG's Global Development Initiative

(GDI): Launched in 2009, GDI is one of KPMG's two global themes for its international corporate citizenship, the other being the Global Green Initiative. GDI aims to apply KPMG's skills, knowledge and resources to help achieve the Millennium Development Goals, with a focus on MDG 1,2, and 3 (eradicating extreme poverty and hunger, achieving universal primary education, and promoting gender equality and empowering women). Each of the 22 member firms represented on KPMG's Global Board are expected to embed GDI as a component of their citizenship activity during 2010 and all KPMG's firms around the world are encouraged to get engaged. They are supported to do so through manuals, capacity building efforts, and the appointment of GDI Champions.

Six key development partners have been identified: Save the Children, Oxfam, World Vision, UNICEF, the Red Cross and the Red Crescent Societies and the Millennium Cities Initiative. Global Lead Partners have been assigned to manage each of these relationships, in the same way that KPMG manages its major commercial relationships, and teams of KPMG staff are working with these development partners on a low or no fee basis in a variety of developing countries. In addition to supporting these strategic NGO and UN development partners, firms are also being called on to support pro-poor private sector initiatives and to work with national governments to provide transparent and accountable governance.

General Mills Science and Technology

Transfer Initiative: In 2008, General Mills made a commitment to support human capital and technology development in efforts to eliminate hunger in several African countries. It launched a new corporate citizenship initiative to leverage the skills and competencies of some 1,200 of the company's research and development and engineering employees, as well as its world-class facilities and retirees aimed at: "...assisting small/medium sized food processors in improving their operating efficiencies and developing nutritious food products utilizing the crop output of smallholder farmers." The initiative is making expertise available to field-based NGO and small enterprise partners in areas such as: food nutrition; food formulation; process development, including the use of appropriate technology and design and effective management of local food processing systems; packaging development; food safety; go-to-market operations; and raw materials procurement. It is initially identifying and working with local partners in Malawi, Tanzania, Zambia and Kenya, with technical assistance and support from international NGO partners such as TechnoServe and CARE International.

The Cisco Leadership Fellows Program:

This program selects high-performing directors and vice-presidents to lead strategic projects in NGOs for six to 12 months. Partners operating in developing countries have included Mercy Corps, Save the Children, NetHope and the New Partnership for African Development (NEPAD). Cisco has a team working on the NEPAD e-Schools project, for example, along with several other companies. In addition to installing networking technology in some 50 schools in 15 African countries, the Cisco team is training teachers and school administrators on how to use and maintain the technology and also working with students to introduce to them to different applications.

The PricewaterhouseCoopers Ulysses

program: This initiative was established in 2000, with the aim of developing a cadre of responsible leaders who are able to understand the changing role of business in society and are equipped to work with diverse groups of stakeholders and cultures. Employees apply to the program from around the world and participate in a pre-placement leadership training program before being assigned to work in cross-cultural and cross-functional teams with NGO partners for periods of about eight weeks. After their field assignments participants become members of the company's Ulysses network and commit to sharing lessons and engaging with colleagues in addressing global development issues.

In addition to engaging their current employees in volunteer efforts, a number of corporations are also exploring opportunities to mobilize their retirees. The bulk of baby boomers born between 1946 and 1964 will retire over the coming decade and their relative wealth, health and education has major implications for consumption and leisure patterns, and also for volunteering. In the United States, for example, it is estimated that volunteers over 65 will increase 50 percent by 2020 to over 13 million people. While many of them will volunteer in their own local communities, there is potential to harness the managerial and technical skills of retirees from relevant industry sectors to support NGOs and projects in developing countries.

A number of OECD countries have intermediary organizations that already support executive overseas programs aimed at retired executives, but to date relatively few corporations have provided platforms for their own retirees to get engaged. This is starting to change. General Electric, IBM and Microsoft are three examples of global corporations that offer such programs for their former employees.

Companies are also exploring ways to engage other key stakeholder groups in volunteering and online efforts to support global development issues. Some companies are supporting university-based service programs for students, young professionals and social entrepreneurs to work on projects in developing countries. Others are offering opportunities for their customers and business partners to support joint volunteer and fundraising efforts. The online platforms and crowd-sourcing models outlined in the following pages are making it easier for corporations to support such efforts in a cost-effective way with potential benefits for both the company and society.

(iii) Crowd-source solutions through online platforms

As illustrated throughout this report, information and communications technologies and the emergence of new applications and online platforms have revolutionized both the field of business and increasingly the field of international development. They also offer potential to increase the efficiency, the leverage and the accountability of philanthropic giving, including corporate philanthropy.

Over the past decade a number of enterprises have created online platforms to serve as intermediaries between individuals, nonprofit organizations and private enterprises that want to donate their money, time and/or skills, and individuals, nonprofits and small or micro-enterprises that need these resources, both at home and internationally. In essence, they are creating social investment markets or social investment stock exchanges based on similar foundations to other markets and stock exchanges. They are making it possible for the first time to leverage small amounts of resources (money, time, knowledge, new ideas) on an ongoing basis from large numbers of people to address a wide range of causes all over the world. Some of the key financial intermediaries in this evolving field are profiled in the section on private financiers. Many of them are focused on giving to developing countries and supporting the achievement of development goals.

Large corporations are key customers for a number of these online giving and volunteering marketplaces. These platforms can be especially effective in helping companies to manage their

matched-giving and employee volunteering programs. Large companies have been relatively slow, however, to use similar online platforms and interactive Web 2.0 technology themselves to directly enhance their philanthropy and community engagement. Many are harnessing these technologies in their core marketing and customer engagement strategies, and a few are starting to do likewise in their philanthropy. Box 16 illustrates examples from five of the pioneers in this area.

There is potential for companies to leverage online platforms and crowd sourcing to raise additional resources and engage additional corporate stakeholders to support global development. Having said that, as Keystone and others have pointed out, such platforms are only an enabler. There is a need in all of the online approaches to ensure that they result in real action and change and to implement metrics and reporting processes to account for how much of the resources reach ultimate beneficiaries and for their impact.

(iv) Seed-fund innovation and entrepreneurship

Corporate philanthropic funds or social venture capital from large companies can be effective catalysts for entrepreneurship aimed at for seed-funding, incubating or providing technical assistance and ongoing financial support to small enterprises, social entrepreneurs or development NGOs that focus on developing innovative, often market-based solutions to poverty alleviation and sustainability. They can also play a valuable role in funding entrepreneurship more broadly, and especially in supporting women and youth entrepreneurs. In some cases these solutions and entrepreneurs have the potential to become commercially or economically viable over time, although in many situations they will require an ongoing combination of market-rate/ commercial capital and below market-rate capital, grants and technical assistance. This type of ‘impact investing’, ‘blended-value’, or ‘hybrid’ funding is outlined in more detail in the section on private financiers.

There is also a spectrum of options in terms of the nature of the relationship between the large company and the social entrepreneur or nonprofit partner. The diagram below illustrates some of the options ranging from philanthropy and corporate social investment to core business alliances. The important role of high-impact entrepreneurs and social entrepreneurs in developing inclusive and sustainable business models reviewed in the next section.

Spectrum of large company engagement with social entrepreneurs

CORPORATE PHILANTHROPY

COMMERCIAL CORPORATE VALUE CHAIN

The company provides traditional philanthropic grants	The company combines financial grants with employee engagement in an advisory or technical assistance capacity or other in-kind operational support	The company offers market-based financial support in the form of loans, investments and guarantees, sometimes in addition to grants, that aim to make the recipient economically viable over time	The social entrepreneur partners with the company along the company's own commercial value chain to help it to build more inclusive business models that source from, distribute through or sell to low-income producers and customers and/or that produce environmentally sound products
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Box 16: Online corporate philanthropy and cause marketing platforms to mobilize social action social action for development

The following examples illustrate how four companies are using online platforms to engage with stakeholders, ranging from direct customers to the general public, and to raise awareness and inspire volunteer action related to their philanthropic objectives. In several of the cases they have partnered with leading social entrepreneurs, new media companies and/or traditional media.

American Express's Members Project and TakePart

American Express's Member Project first introduced crowd-sourcing philanthropy in 2007. The company's customers, American Express cardholders, were invited to submit community projects and vote on those they thought should receive support from the company. The first winning project received \$2 million and enabled UNICEF to provide clean drinking water to communities in Tanzania, Democratic Republic of Congo, Angola, and Guinea. In its second year Cardmembers voted for the company to support public awareness and early detection of Alzheimer's disease. In 2010, American Express joined forces with TakePart, a social action network created by Participant Media. The organization uses film and other media to raise awareness and mobilize citizen action to drive social change. Their shared platform will enable both American Express Cardmembers and the general public to get engaged in a number of ways, including efforts to support global development:

- Participants are invited to vote for a cause to receive funding. Five charities will be selected every three months to receive \$200,000.
- Cardmembers will have the option to directly support a cause themselves selecting from over a million charities. The platform makes it easy for members to donate Membership Rewards points, make a one-time donation using their American Express card, or arrange to make ongoing donations over a period of time. After the Haiti earthquake Cardmembers donated nearly US\$100

million and over 87 million Membership Rewards points.

- The company has teamed up with VolunteerMatch to enable people to volunteer in a variety of opportunities and to either receive or donate a maximum of 10,000 Membership Rewards points based on the amount of hours volunteered.
- The platform provides its participants with tools to make it easy for them to promote and recruit support for their own initiatives or favorite charities. They are invited to become a fan of Members Project on Facebook, use the project's twitter tag and share video content via YouTube.

Facebook and Chase Community Giving: You Decide What Matters

In 2010, the JPMorgan Chase Foundation partnered with Facebook to expand the reach and scale of its crowd-sourcing philanthropy efforts. Facebook has over 400 million active users, some 70 percent of whom reside outside the United States. It offers companies a variety of options for engaging with this large community of users both for mainstream marketing purposes and increasingly for what it terms 'public philanthropy'. In the latter case companies are given options to:

- *Sponsor a cause and nonprofit beneficiary*, through creating incentives for Facebook users to raise funds and recruit new members for a pre-selected cause and/or nonprofit organization by offering matching grants; and
- *Host a Challenge* through Facebook Causes that enables Facebook users,

company employees and other stakeholders to vote for the causes and charities they care about or think have the greatest impact.

The JPMC initiative invites Facebook users to vote for charities that are driving positive change at the community level. In addition to the online outreach, JPMC has established a Chase Community Giving Advisory Board to advise the program and support the donations made by the company. In the first round of the competition the company pledged to donate \$5 million to 100 community charities based on online votes, with an ultimate winner being awarded US\$1 million. More than two million Facebook users became fans of the program and helped to select winners from over 500,000 nonprofit organizations. Invisible Children, Inc. won the main award. It is a nonprofit based in the United States seeking to end the conflict in Uganda and stop the abduction of children for use as child soldiers. The program has been enhanced based on user feedback to enable greater interaction between users and charities and to offer additional options for mobilizing resources.

BBC, Newsweek and Shell's World Challenge

The World Challenge is a global competition managed by BBC World News and Newsweek in association with Shell. The competition aims to find community projects or small businesses from around the world that have shown enterprise and innovation in tackling development challenges. It aligns closely with the Shell Foundation's focus on supporting enterprise-driven solutions to development and harnesses the new media and traditional outreach capacity of two global media organizations. The media groups provide an online platform for grassroots organizations and their supporters to submit nominations and for readers to vote on the finalists. At the same time the media companies can raise awareness of the issues and provide publicity for inspiring examples through journalism and advertorials.

The World Challenge was established in 2005 and has attracted close to 3,000 nominations from about 100 countries each year. A high-profile panel selects the finalists and then several hundred thousand people vote online for the winners. Nominations must meet the following criteria:

- Projects or small businesses that demonstrate an entrepreneurial spirit and increase investment in the local community
- Projects or small businesses that shows initiative, the innovative use of technology or an invention
- Projects that take a responsible approach to the environment in which they are operating.

To-date nominations have covered a wide range of local solutions to challenges such as community health, education, nutrition,

clean water and environmental resilience. Winners have included: the Hashoo Foundation in Pakistan that enables women beekeepers to earn an income by selling their honey to hotels; Maximus, a papermaking firm in Sri Lanka that makes recycled products from a variety of wastes; an enterprise founded by a surgeon in Sri Lanka that has distributed over 750,000 safe bottle lamps to help stop serious injuries caused by unsafe kerosene lamps in low-income households; T'ikapapa, an initiative in Peru to support smallholder farmers and farmer organizations to grow nutritious indigenous potato varieties and link them to markets; and Juboken Enterprise in the Philippines, which creates local livelihoods by producing biodegradable nets from waste coconut husks and using them to hold loose soil in areas prone to serious landslides and soil erosion.

IBM and The Worldwide Community Grid

The Worldwide Community Grid (WCG), created by IBM in 2004, offers a different type of example where crowd-sourcing, volunteering and online platforms converge to help tackle humanitarian challenges while also supporting a company's philanthropic objectives and aligning to its core competencies. WCG utilizes grid-computing technology that enables individuals and businesses to volunteer the unused time on their computers to perform specific calculations related to humanitarian research projects. The projects are focused on complex environmental and health-related challenges that require massive computing capacity. IBM manages the initiative with input from an advisory group of scientists, philanthropists and public officials who help to select the research projects that will benefit from the program.

Participants register their computers online and install a free software program that operates like a screen saver, tapping into computing power only when the computer is idle. Servers managed by IBM coordinate the process, linking idle personal computers to discrete research assignments and validating and packaging calculations as they come back.

As of mid 2010, individuals from some 200 countries had registered with the project. They had contributed an estimated 300,000 years of computer runtime which has processed more than 350 million results for scientists and researchers free of charge. Projects have included research on fighting to cancer, infectious diseases in developing countries such as HIV/AIDS, malaria, smallpox and dengue fever, nutritious rice, genomics and climate change in Africa.

Examples of large companies that have provided a combination of philanthropic grants, skills-based volunteering support and impact investments to social entrepreneurs to develop or scale innovative market-based approaches and technologies are illustrated throughout in the report. They include:

- The **Cisco Systems Foundation**, which provided seed capital for social entrepreneur Jacqueline Novogratz to establish the **Acumen Fund** in 2001. Acumen is an innovative venture capital fund for the poor, providing finance and advice to market-based enterprises delivering affordable solutions in the areas of health, water and sanitation, and housing.
- **Green Mountain Coffee** and **Starbucks** have engaged with **Root Capital** through their core value chains in addition to providing social investments and cause-related marketing support. This has enabled Root Capital's founder, Willy Foote, and his team to deliver an economically viable combination of innovative rural finance, advise and local capacity building to smallholder coffee farmers, while also engaging in catalytic activities to foster the field more broadly, supporting community development efforts and above all, ensuring a market for the farmers' products.
- The **Citi Foundation**, which has worked with **E&Co.** to develop a number of innovative financing instruments. These have enabled E&Co. to provide growth capital and support services to small-scale energy entrepreneurs in developing countries and to tap into carbon finance markets to leverage the economic, social and environmental impact of its activities.
- **SC Johnson** partnered with **KickStart**, founded by social entrepreneurs Nick Moon and Martin Fisher, through a combination of its core business and social investment activities to provide smallholder pyrethrum farmers in Kenya with access to appropriate and affordable irrigation pumps. Both had an interest in raising farmer productivity, quality and incomes and different resources to offer in achieving this goal.
- The **Abdul Latif Jameel Group** and the **Grameen Foundation** have partnered in the Middle East to fund, strengthen and network entrepreneurial microfinance intermediaries and market-based approaches to small and micro-enterprise development, with a strong focus on empowering women entrepreneurs.
- **The Ayala Foundation** and the **International Youth Foundation**, which have cooperated to promote youth empowerment and skills development through a variety of local social entrepreneurs and online platforms in the Philippines.
- **Renewable World**, formerly the **Koru Foundation**, was established in 2007 by a group of renewable energy companies and their trade associations in Europe with the aim of tackling energy poverty and supporting community-based adaptation and resilience to climate change. Renewable World works with local partners in Latin America, Africa and Asia to deliver entrepreneurial solutions to the provision of small-scale, affordable, reliable, renewable energy, primarily in areas of market failure. Partners are supported to assess local development needs and the technical and financial feasibility of energy micro-systems in solar, wind and hydro services, and to build local capacity and stimulate energy-enhanced enterprises.

All of these examples and a growing number similar to them involve a combination of philanthropic funding or social investment and alignment with the company's core competencies. In some cases, they also involve direct integration into the company's commercial value chain.

Box 17 illustrates the examples of the Shell Foundation, the ICICI Foundation for Inclusive Growth, Virgin Unite. These three corporate foundations are explicitly focused on seed funding enterprise-based solutions to sustainable development and poverty alleviation and to aligning their philanthropic activities to the core competencies and cultures of the companies that established them. As the Shell Foundation notes:

“We address social problems arising from the links between energy and poverty, energy and the environment and the impact of globalization on vulnerable communities. In addition, while set up as a grant-making charity, the Shell Foundation believes the application of business principles and business thinking can be very useful in tackling social problems, especially the challenges of overcoming poverty in developing countries. Hence we tend to act more like an investor in deciding where and how to allocate our commitments of time and money. We also expect our partners to act like entrepreneurs and businesses in the pursuit of their social and charitable objectives. Finally, we're exploring ways of harnessing what we call the 'value-creating' assets of one of the largest energy companies, the Shell Group, to advance our charitable objectives.”⁷⁸

Given the central role of innovation and an entrepreneurial mindset to business success for many large companies, it is surprising that many more of them are not actively funding, supporting and partnering with social entrepreneurs, small businesses and development innovators through their philanthropic and/or business activities. These 'hybrid' relationships warrant further analysis and support by other private and public sector development actors.

BOX 17: Corporate foundations that are seeding enterprise solutions to poverty

● The Shell Foundation

Royal Dutch Shell established the foundation in 2000 as an independent nonprofit organization to facilitate a more strategically aligned approach to the company's global giving. The foundation does not substitute for the company's ongoing community engagement, volunteering and consultation strategies at the local operational level. It has combined the support of innovative market-based solutions through its program funding with strategic use of high-profile platforms and research to influence policy dialogue and the debate on 'business and development'. It has also played a role in building the capacity, scale and impact of intermediary organizations – both those that directly delivering products and services on-the-ground as well as field building platforms such as the Aspen Network of Development Entrepreneurs. Two examples of how the Foundation is supporting entrepreneurial market-based approaches are as follows:

- Since 2003, the **Aspire** program has partnered with international financial institutions to support the development and scaling of GroFin, an intermediary that provides integrated growth capital and business development support to small and growing businesses in Africa. Today, in Nigeria, Kenya, Ghana, South Africa, Tanzania, Uganda and Rwanda, GroFin is managing more than \$260 million in investments in over 160 companies, with funding provided by a combination of both African and global investors. Some 5,000 jobs have been created or maintained and women own almost 30 percent of the small companies funded. GroFin now manages the world's largest sub \$1million per investment SME fund and is focused on scaling into a further five African markets over the next three years and raising its capital base to \$400 million. All the small enterprises

funded are evaluated against development impact criteria in addition to financial returns.

- Through its **Trading UP** initiative, the foundation is helping to make value chains more inclusive by matching consumer demand in developed countries with small farmers in developing countries. Trading UP partners with for-profit and nonprofit intermediaries that deliver services such as seed capital, supply chain or business management and mentoring programs to small producers in Africa and India. At the same time, it facilitates major retailers such as Marks & Spencer to source from these producers, by helping to take some of the transaction costs and risks out of dealing with them. The foundation is focused on scaling the intermediary organizations that make this connection economically feasible and socially and environmentally sound – describing them as 'ethical agents'.

● ICICI Foundation for Inclusive Growth

This is a new foundation, created by the ICICI Group in 2008 to focus the company's efforts more strategically on promoting inclusive growth amongst low-income households in India. Through its mainstream business operations ICICI has played a pioneering role in improving access to affordable financial services for millions of Indian entrepreneurs and households. The company is widely viewed as one of the corporate success stories of India's impressive economic growth over the past two decades. Its foundation aims to expand such opportunity. Its stated mission is: "...to create and support strong independent organizations which work towards empowering the poor to participate in and benefit from the Indian growth process."

The foundation takes an integrated approach to empowerment, with five strategic programmatic areas based on what it describes as its core beliefs about inclusive growth. They are as follows:

- Good health and basic education are fundamental prerequisites for achieving inclusive growth.
- While health and educated individuals have the capacity to transform their lives, their ability to do so depends on the quality of their access to transformative tools such as finance.
- For the Indian growth process to be truly inclusive, health, education and access to complete financial markets are necessary but not sufficient. ...additional efforts are required, such as the strengthening of grassroots organizations and regulatory infrastructure to ensure that the market does not exploit marginalized sectors of the population or the environment.

From the outset, ICICI made the decision not to build a large organizational structure with all its own program management systems, but to collaborate strategically with and support a select group of independent organizations with deep expertise in the foundation's focus areas. This approach aims not only to build the capacity, scale and impact of these strategic partners, but through them to deepen and strengthen a broader ecosystem of local organizations and networks focused on inclusive growth. The five strategic areas are: primary health; elementary education; comprehensive access to financial services; strong civil society; and environmental sustainability. In all cases, the foundation aims to support entrepreneurial and accountable local entities.

BOX 17: Corporate foundations that are seeding enterprise solutions to poverty continued

● **Virgin Unite**

The Virgin Group is widely recognized for its entrepreneurial culture and that of its founder, Richard Branson. Virgin Unite was established as a nonprofit foundation in 2004, with the following mission:

“We unite people to tackle tough social and environmental problems in an entrepreneurial way. Our aim is to help revolutionize the way businesses and the social sector work together – driving business as a force for good. This is based on the belief that this is the only way we can tackle the scale of the challenges facing the world today.”

The Virgin Group and Richard Branson cover the foundation’s overheads.

This enables all additional donations and resources mobilized to go to programs and projects. The foundation works actively to engage other actors in its programs, including the company’s employees, customers and suppliers, as well as other entrepreneurs and organizations.

Its activities focus on three main areas:

Big Ideas, which brings together leaders from different sectors and countries to create new global leadership models to address conflict, climate change and disease, and includes The Elders initiative;

Entrepreneurial Incubator, which brings together leaders in the business and social sector to develop entrepreneurial approaches aimed at driving economic empowerment and healthy communities; and **Mobilizing and Inspiring Business**, which aims to make it easier for other companies to get engaged in entrepreneurial social solutions.

Two examples of the foundation’s entrepreneurial focus are as follows:

- In South Africa, Virgin Unite has established the **Branson School of Entrepreneurship**. This has been implemented in partnership with CIDA

City Campus, a cost-effective and affordable business school established by Taddy Bletcher, a South African social entrepreneur, to enable high-potential youth from low-income communities to gain business and technology skills.

The Branson School of Entrepreneurship now offers an 18-month training program for CIDA graduates that aims to launch 30 small businesses each year. Money raised from another entrepreneurial Branson initiative, an annual dinner to recognize the Virgin Atlantic Fast Track 100 entrepreneurs in the United Kingdom, goes into the CIDA Seed Fund to provide capital to student with good business plans to start their own enterprises.

- **Entrepreneurs Unite** is another program, which aims to make it easy and fun for other entrepreneurs to get actively engaged in the social sector. It offers a flexible approach that enables entrepreneurs to engage with Virgin Unite’s own projects or other entrepreneurial solutions in a way that suits their own objectives and capacities.

● **Google.org**

Google.org was created in 2004 as part of the company’s initial public offering (IPO). In writing to prospective shareholders in their IPO letter, Google founders Larry Page and Sergey Brin stated, “We hope someday [Google.org] may eclipse Google itself in terms of overall world impact by ambitiously applying innovation and significant resources to the largest of the world’s problems.” A commitment was made to donate 1 percent of Google’s equity and profits to philanthropy. Google.org was legally structured in a manner that enables it to undertake traditional grant making to nonprofits, but also to make investments in for-profit enterprises with a social and/or environmental mission, and to leverage

the company’s technologies, products and skilled employees. From the outset, Google.org has also been actively involved in policy advocacy. Since its inception, it has committed over US\$100 million in grants to non-profits and investments in companies that are working on breakthrough technologies to tackle challenges such as climate change, pandemic disease and poverty. It has also supported efforts to improve information access aimed at informing and empowering citizens to hold their governments to account. And it has supported social enterprises such as the Acumen Fund and TechnoServe, which are investing in small and growing businesses in crucial poverty-alleviating sectors such as agriculture, water, energy and housing.

In 2009, a decision was made to focus Google.org’s primary efforts on tackling complex challenges that are most likely to benefit from the company’s strengths in technology, engineering and information. It is now focused on investing in technology-enabled and entrepreneurial solutions that have the potential to scale and have systemic impact. Examples include: **Google Flu Trends**, which provides real-time tracking data on flu activity around the world; and **RE<C**, which is making investments in a variety of clean energy sources, such as solar, wind and geothermal and the commercialization of plug-in vehicles. It is also supporting initiatives such as **Innovative Support to Emergencies, Diseases and Disasters (InStedd)**, which aims to improve the detection of, preparedness for, and response to global health threats and humanitarian crises.

(v) Strengthen the capacity of local leaders and institutions

Many NGOs, community-based organizations, universities, and other civic organizations in developing countries lack not only financial resources, but also the necessary human, technical, institutional, planning, project management, logistics and communications capacity to be effective. In the same way that small enterprises in many developing countries lack access to markets, civic organizations often lack access to networks that can help them access philanthropic and other funds, get technical assistance, join peer groups and find partners with which to collaborate. In many cases essential government Ministries in areas such as health, education and employment, face similar institutional capacity gaps.

In addition to institutions, individual leaders are essential drivers of more inclusive and sustainable models of development, both nationally and at the community level. Millions of teachers, health workers, emergency first-responders and public administrators strive against the odds to build local human capital and resilience. Whether they work in the public, private or civic sector, and whether they are paid for their efforts or serve as unpaid volunteers in their communities they play an essential role in fostering human potential and economic opportunity. Yet, in far too many cases these local leaders are over-stretched, under-valued and poorly qualified. Many go elsewhere to find jobs with greater financial security and less stress, putting even greater strain on those who stay. There is an urgent need for new types of partnership to train, retain and network these vital local leaders.

The UN estimates that some 4 million new teachers are needed in Africa if universal primary education is to be achieved, and nearly sixty countries in Africa and Asia face a severe shortage of health workers requiring a total of 4.2 million additional workers to fill the gap. Sub-Saharan Africa, for example, has 11 percent of the world's population, 24 percent of the global burden of disease and only 3 percent of the world's health workers. At the same time, civil servants in many countries could serve their citizens better if greater investments were made in building their managerial capacity and equipping them with better technologies and technical skills.

The Rockefeller Foundation outlines the importance of strengthening local leaders and institutions:

“Economies are lifted by investments in the best individual minds, the best-functioning institutions and the latest smartly utilized information technology. Not only are poor countries and weak organizations ill-equipped to compete in international markets; worse, they are unable to respond successfully to demands by local clientele and communities. Recognizing that capacity building is central to achieving economic growth, reducing poverty and equalizing opportunity, foundations and bilateral and multilateral funding agencies have taken a newfound interest in this fundamental area.”⁷⁹

One challenge is that no individual company can achieve systemic impact without working strategically with host governments, other development partners and in certain cases other companies. Whether the goal is building health, education or others types of local institutional capacity, there is a danger of too many individual, vertical initiatives replicating efforts and in some cases competing with each other. There is a need for such capacity building efforts to be more effectively leveraged by greater coordination between different companies, or strategic alliances

between companies, other private foundations and public donors. Such collaborative efforts warrant further attention. They could help to scale the reach and increase the effectiveness of institutional capacity-building efforts by the private sector.

A number of companies have established NGO and/or public sector training programs and institutes to strengthen the capacity of individuals and institutions in key areas such as health, education and community development. Pharmaceutical, information technology companies, professional services firms, and companies with a strong local operating presence have been particularly active in this area. A few examples of multi-country capacity-building programs in the area of health workers and healthcare institutions are as follows:

- **BD**, the medical technology company, has a Good Laboratory Practices (GLP) training program, which is designed to help improve laboratory skills, safety and the quality of patient care in resource-limited settings. As of 2010 the program had trained more than 4,000 laboratory practitioners from some 58 countries. These programs are core components of the company's Global Health Initiative, which focuses on strengthening healthcare systems in developing countries through: providing technical assistance and training to build local capacity; increasing access to affordable and appropriate technology such as diagnostic tools and medical devices; and investing in new technologies that are more relevant for resource-constrained settings. The company makes extensive use of its own employees in training workshops and capacity-building, in addition to partnering with global health organizations and NGOs.
- **Bristol Myers Squibb** is building the capacity of health workers and health-related NGOs in a number of African countries through its Secure the Future program. The company and its foundation have committed some US\$150 million to the program. Since its creation in 1999, Secure the Future has supported more than 200 projects focused on community education and outreach and medical care and research, and has expanded its reach from 5 countries to 12. The program is not only a grant-making facility, but also focuses on community-based education and treatment support, pediatric AIDS and building NGO management and leadership capacity. Through its online NGO Training Institute, for example, BMS is working to strengthen institutional capacity for NGOs and community organizations focused on HIV/AIDS. The NGO Training Institute is a virtual program that offers curricula on management, good governance, organizational leadership and self-assessment tools. It is operational in South Africa, Botswana, Namibia, Lesotho and Swaziland.
- **Johnson & Johnson** supports a number of longstanding programs aimed at building health care capacity in developing countries through providing leadership and management development training and networking opportunities for doctors, nurses, midwives and other healthcare professionals. In 2006, for example, it partnered with UCLA to establish the Management Development Institute, an intensive one-week training program to enable healthcare professionals in East Africa to become better managers. Similar programs for hospital managers and health workers in other parts of the world are supported in partnership with institutions such as Singapore Management University, Wharton, INSEAD and the Aga Khan Foundation.

- **Pfizer** has worked in partnership with others to establish an Infectious Disease Institute in Uganda, which provides region-wide capacity building in the care and treatment of HIV/AIDS and other infectious diseases. Hosted by Makerere University and supported by a variety of public and private organizations that provide both financial and in-kind support, IDI provides training to health workers, research on best practices in low-resource settings and advanced clinical services that support the development of new models of care. Since its establishment in 2004, the institute has trained some 3,500 healthcare workers from about 27 African countries. It is also working with the Accordia Global Health Foundation to implement an Integrated Infectious Disease Capacity Building Program targeted as building the capacity of mid-level health practitioners in Sub-Saharan Africa.

These philanthropic initiatives are in addition to the human capital development and institutional strengthening that these companies undertake through their core business activities in developing countries. The following pages illustrate four other examples of companies that have engaged in strategic multi-year partnerships with governments and donors to undertake comprehensive countrywide approaches aimed at building government and NGO capacity in different sectors in Botswana, Angola, Tanzania and Ghana.

Some companies have also taken an integrated regional or countrywide approach, working directly with governments to help strengthen local institutions in a particular sector and location.

In Botswana, for example, the **Merck Company Foundation / Merck & Co.** has partnered with the Government of Botswana and the Bill & Melinda Gates Foundation to support the Africa Comprehensive HIV/AIDS Partnership (ACHAP), which is focused on strengthening and coordinating the country's HIV/AIDS response along the full spectrum of prevention, care and treatment. From its outset in 2000, the initiative was designed to be country-led, with the Government and local civil society and private sector organizations playing the lead role in defining priorities and needs. The Gates Foundation and the Merck Company Foundation both committed US\$50 million and Merck donates two of its antiretroviral (ARV) medicines to the national ARV therapy program. The initiative has been multi-faceted and has included support for improving health infrastructure, developing local human resources and training of over 5,000 healthcare workers, the provision of equipment to improve monitoring capacity, support for local media campaigns to raise awareness and tackle stigma, efforts to promote workplace policies through local companies and business associations, and guidance on public policy and national strategic frameworks. Independent evaluations of the program estimate that it has prevented more than 53,000 deaths of people living with HIV and today 90 percent of the population living with HIV receive treatment compared to 5 percent when the program began. In 2010, in addition to ongoing product donations from Merck, the two foundations each committed a further US\$30 million in funds to deepen and strengthen the program.

In Angola, **Chevron** partnered with the Angolan Government, USAID, UNDP, Africare and other local and international development NGOs to establish the Angola Partnership Initiative (API) in 2002. It was capitalized with an initial US\$25 million commitment from the company, matched by funds and technical assistance from other partners. API's goal was to provide humanitarian assistance, revitalize commercial agriculture, invest in small enterprise development and support community-based capacity building. It was part of a national effort to rebuild the country's economy and social infrastructure after years of devastating civil war. In 2007, after the API funds had been committed, the initiative was evaluated. Some 1.6 million people had participated in food-for-work activities resulting in the rehabilitation of rural infrastructure, including almost 4,000 kilometers of rural roads and over 1,000 kilometers of irrigation channels. About 2,200 smallholder farmers were involved in the ProAgro initiative to strengthen local agricultural value chains and food security. NovoBanco, a commercial bank for small and microenterprises had been established, and by December 2007 had cumulatively extended loans valued at over US\$27 million and taken in US\$ 9.2 million in deposits. A Business Resource and Development Center had provided business development services to about 7,000 clients. Twenty-six education and learning centers had been established through a partnership with Discovery Channels and some 1,300 teachers trained. Key lessons from the participatory evaluation process are now being applied by the company to strategic partnerships in other developing countries, including the launch in 2010 of the Niger Delta Partnership Initiative in Nigeria.

In Tanzania, the **Abbott Fund** and the Government of Tanzania have formed a strategic partnership aimed at strengthening key elements of the country's health system, with a focus on serving people with HIV/AIDS. The Abbott Fund, which is the philanthropic arm of Abbott, has established a local office and since the partnership was initiated in 2002 it has invested over US\$80 million in the program. Working closely with the Ministry of Health and Social Welfare, the initiative has also drawn on the core competencies of Abbott's employees in areas ranging from diagnostic, clinical and laboratory skills to facilities and logistics management. It has helped to expand and modernize facilities, train medical and administrative staff, improve hospital and patient information and management systems, and expand the capacity for HIV testing, counseling and treatment. The initiative has been centered at the Muhimbili National Hospital in Dar es Salaam, Tanzania's main referral and teaching hospital. Improvements have included a new outpatient facility with 34 examination rooms, a new laboratory, an emergency medical department, new training facilities and the implementation of information technology (IT) systems. The laboratory has increased testing capacity up to a hundredfold for certain types of tests and the IT systems have helped to improve patient service and financial management, enabling the hospital to increase revenue collection by an estimated 350 percent. Together these reforms are enabling the hospital to start accessing other sources of revenue such as funding for research and sales of diagnostics to other healthcare institutions. In addition, the initiative is working in partnership with other organizations to build a network of modern laboratories in all 23 of the country's regional hospitals and provide technical, financial and training support for more than 80 hospitals and rural health centers in total. It is also providing more than 100 scholarships a year to students pursuing medical laboratory sciences at local universities.

In Ghana, **SAP** has partnered with the Ministry of Finance and Economic Planning, the German federally-owned development agency Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), and the Extractive Industries Transparency Initiative (EITI) to support the government in establishing an accountable and transparent system for monitoring payments and revenues from its growing minerals, oil and gas industries. Ghana EITI is a national chapter of the EITI, which was launched by the UK government in 2002 and now operates as a stand-alone institution. EITI is a voluntary coalition of governments, companies, investors, civil society organizations and international agencies that aims to improve revenue transparency and governance in resource-rich countries through the publication and verification of company payments and government revenues in the mining, oil and gas sectors. SAP is a global leader in the provision of business software such as enterprise resource planning, business intelligence and related applications, which enables companies to identify and respond to risk and opportunity throughout their extended enterprise, thereby improving the efficiency, resilience and integrity of their operations. In working with Ghana EITI, GTZ and the Ghanaian government, SAP has leveraged both its products and the expertise of its employees to support the country's efforts to curb corruption and to ensure that revenues from the extractive sector translate into economic growth and poverty alleviation. The company has donated an enterprise performance management solution and technical assistance, which will help the Ministry of Finance to improve financial oversight and analysis of extractives revenues and also provide public information to empower civil society and other stakeholders to monitor government accountability and performance. In 2010, the company partnered with GTZ to hold a multi-stakeholder workshop, including representatives from Ghanaian civil society in addition to companies and government officials, to agree on the scope, governance and implementation of the Ghana EITI program. In October 2010, Ghana became the fifth country to achieve Compliant status with the EITI's global standard.

Box 18 illustrates two other examples of strategic corporate citizenship programs that are focused on strengthening the capacity of local leaders and institutions in developing countries.

Box 18: Corporate citizenship programs that mobilize people, products and process to strengthen nonprofit and public institutional capacity

Microsoft's Unlimited Potential™ program building NGO capacity

Microsoft has operated a variety of philanthropic, product donation and employee engagement programs for more than two decades that equip nonprofit organizations – both international NGOs and community-based initiatives – with information technologies and technical skills to improve their organizational effectiveness, reach and social impact. The convergence between ICT devices, software and cloud-based services offers new opportunities as well as challenges for the NGO community. As the company notes, “Technology can be a disruptive force that opens exciting opportunities and avenues for nonprofits to better achieve their missions and accelerate their impact. This ‘constructive disruption’ of traditional business, delivery, information and networking models is already underway. . . . As more examples emerge of innovative technologies and new models for social change, the challenge for NGOs, nonprofits and foundations is how to be involved in shaping these solutions and take advantage of them for development.”⁸⁰

As a core component of its Unlimited Potential program, Microsoft is working with thousands of nonprofit partners and with intermediaries to build their institutional and technical capacity to reap these opportunities. The company has identified four areas for action: technology innovation to make sure that existing and emerging technologies are relevant, affordable and accessible for NGOs globally; IT capacity building and the creation of NGO partner ecosystems to fully optimize these technologies; motivating and supporting IT developers to pursue innovation specifically for the nonprofit sector; and social networking platforms to exchange information and best practices throughout the social sector.

In 2008-2009 the company donated more than US\$400 million worth of software to over 30,000 NGOs and nonprofits, it supported intermediaries such as TechSoup, Telecenter.org and NetHope to enable them to enhance the capacity of NGOs, it developed Shared Access computing options for users in remote areas building the local capacity of thousands of telecenters, libraries, schools and Internet cafes, it hosted an NGO oriented website and ran NGO Connection Days around the world, and it ran programs such as the Imagine Cup challenge to motivate students and developers to create software solutions for tackling key development challenges. In all cases, the aim is to increase capacity, productivity and effectiveness, improve communication and collaboration, and scale and strengthen social impact.

General Electric's Developing Health Globally™ program to build capacity of rural health centers

GE's Developing Health Globally™ program upgrades the capabilities of rural district hospitals in selected countries in Africa, Asia and Latin America. The company estimates that it has a direct impact on more than 4.8 million lives. Launched in 2004, with active employee engagement, the program aims to improve healthcare delivery for some of the world's most vulnerable people. As the company outlines: “The program draws on GE products, expertise and employee engagement to provide a sustainable, enterprise solution approach to gaps that exist in rural healthcare facilities today. The enterprise solution approach GE follows is unique for a philanthropic/product-donation effort in that it is carried out using GE business practices similar to how GE implements a greenfield opportunity and combines GE people, process and technology to yield sustainable, best-case results. In addition to physical facility upgrades, GE builds in-country capacity for clinical practice and biomedical

equipment repair to help receiving facilities make best use of current medical technologies.”⁸¹

The program has active support from the company's African American Forum, Hispanic Forum and Asian Pacific American Forum. Employee volunteers partner with each receiving hospital to monitor equipment use and share business best practices. Products and equipment donated by the company have included basic laboratory equipment, patient monitoring devices, surgical suite equipment such as anesthesia and patient monitors, maternal and infant care products, such as infant warmers, water filters, and diagnostic tools such as X-ray and ultrasound. The program places a particular emphasis on Millennium Development Goals 4 and 5: maternal and infant care. The facility improvements made through the program also improve treatment of trauma and acute illnesses such as combinations of HIV/AIDS, TB and malaria.

The company carries out independent evaluations to track patient volumes and health outcomes. Since the start of the program in Africa, practitioners' improved use of technology has increased deliveries by 50 percent, ultrasound scans by 200 percent and baby warmer use by 175 percent. Surgery volume also increased because of aid from modern tools, leading to a 100 to 250 percent increase in anesthesia and monitoring and a 250 percent increase in X-rays. After being launched in Ghana, the program has now expanded to Kenya, Rwanda, Ethiopia, Malawi, Mali, Nigeria, Tanzania, Uganda, Senegal, Honduras, Cambodia and Indonesia, covering some 100 health centers. About 3,000 products have been donated and the company has made an investment of US\$ 40 million.

(vi) Connect humanitarian relief with long-term recovery and resilience

Natural and man-made disasters have a devastating effect on millions of peoples' lives every year. In addition to the immediate humanitarian crisis, over the longer-term they usually have a negative impact on efforts to improve health and education, build local livelihoods, strengthen communities, alleviate poverty and ensure sustained development. The UN estimates that more than 200 million people are affected every year. The risk associated with a growing number and intensity of disasters is increasing, especially due to climate change. Estimates predict that the humanitarian caseload could rise by as much as 25 percent by 2015.⁸² It is usually the poorest and most vulnerable populations who face the highest risks and are least equipped and resilient to respond to or recover from disaster.

As highlighted throughout the report, the key responsibility for large companies is to ensure first that their own business activities do not cause or exacerbate disaster situations. Second, that they have management systems in place to prepare for and respond to disasters in a way that protects the lives of employees and local communities, and that manages operational risk and supply chain resilience. In addition, corporate philanthropy can make a valuable contribution to supporting disaster relief, not only in countries and communities where the company has operations, but also globally.

Many corporations support disaster response efforts with a combination of philanthropic donations and matched-giving programs for employees. Depending on the relevance of their products and services, some also provide essential product donations and skills-based employee volunteering. Companies in the pharmaceutical, information and communications technology (ICT), transport and logistics, food and beverage, and financial services sectors have a particularly important contribution to make. The Committee Encouraging Corporate Philanthropy states that, "Over the past few years, [2007-2010] disaster relief has accounted for approximately 1% - 3% of the average company's total giving budget, depending on the number and scale of disaster events requiring response."⁸³

Over the past decade, corporate philanthropic efforts to respond to disasters and emergencies have become increasingly sophisticated and coordinated. Leading companies now have dedicated resources and processes in place to manage their engagement. A number of them have explicit goals to be more strategic along the full spectrum from immediate disaster relief through to rebuilding, recovery and resilience. There has also been a marked growth in collaborative efforts and several organizations have produced guidelines to improve the quality and accountability of corporate engagement.

Intermediary organizations such as the World Economic Forum (WEF) and Clinton Global Initiative (CGI), UN agencies and business associations have played a key role in facilitating these developments and ICT often serves as a useful coordinating or networking platform. WEF's Humanitarian Relief Initiative, the UN High Commission on Refugee's business advisory council, the U.S. Business Roundtable's Partnership for Disaster Response, and the Disaster Assistance and Recovery initiative at the U.S. Chamber of Commerce all provide platforms for companies and other actors to learn from each other and identify areas for on-the-ground cooperation. WEF and the UN Office for the Coordination of Humanitarian Affairs (OCHA) have jointly developed a set of 'Guiding Principles for Public-Private Collaboration for Humanitarian Action'.

Other collaborative initiatives include NetHope, which brings together ICT companies and humanitarian NGOs, the Partnership for Quality Medical Donations, which brings together pharmaceutical companies and humanitarian NGOs, the Fritz Institute and the Logistics Emergency Teams (LET) initiative, which both link logistics expertise to humanitarian efforts, and Innovative Support to Emergencies, Diseases and Disasters (Instedd), which uses new technologies to improve the early detection of, preparedness for, and response to global health threats and humanitarian crises. A few of these collaborative efforts are profiled in Part Four of the report.

There are also a growing number of individual companies that have formed one-to-one multi-year strategic alliances with a particular humanitarian NGO or UN Agency. Organizations such as the Red Cross, CARE International, Mercy Corps, World Vision, Oxfam, Catholic Relief Services, Islamic Relief, Save the Children, the World Food Programme, UNICEF and UNHCR have been particularly active and strategic in engaging with the corporate sector to improve the effectiveness of immediate humanitarian relief and longer-term recovery. Four examples among many of on-the-ground rebuilding efforts supported by corporate philanthropy are profiled in Box 19.

The spectrum for corporate engagement in disaster relief and recovery

Immediate emergency relief

The imperative is to deliver lifesaving aid, distribute clean water and sanitation, provide urgent medical attention, distribute food, ensure personal security, organize shelter, prevent or minimize outbreaks of disease – quality operations and logistics capabilities, information and communications technologies, emergency supplies, complex project management skills, access to emergency funds are all essential to saving lives, minimizing human suffering and protecting survivors.

Restoration of basic services, core infrastructure and local economic activity

In addition to ongoing emergency efforts there is the need to reconnect families, restore essential public facilities, keep citizens informed, support local livelihoods through market-based reconstruction models and cash-for-work programs, manage refugee situations.

Longer-term engagement in broader economic recovery and in rebuilding health and education systems

Explore opportunities to integrate local enterprises, suppliers and distributors into corporate value chains, look at opportunities to ‘leap-frog’ technologies to build more resilient infrastructure, better schools and hospitals.

Support disaster planning and preparedness, including local capacity building

Help communities and local institutions to improve disaster preparedness capabilities, support organizational capacity building of humanitarian NGOs (both local and international), invest in and train local first-responders in emergency services.

Increase the resilience of the most vulnerable populations.

Efforts to build more sustainable local enterprises, resilient economies, social safety nets, household savings and insurance policies, and economic and social capacity, which will not only help poor communities to better plan for and cope with disaster, but in many cases also contribute directly to poverty alleviation.

Box 19: Philanthropic partnerships to help rebuild after conflict and natural disasters

In the following examples, the companies profiled have provided immediate relief and emergency response support to affected populations, usually in partnership with governments and NGOs. At the same time they have made investments in rebuilding and supporting longer-term recovery, resilience and development.

The Aceh Recovery Initiative – Established by Chevron working with the government, Swiss Contact and USAID following the 2004 tsunami, this initiative focused on providing locally needed vocational skills and economic development opportunities for people living in Aceh, Indonesia. An immediate three-month program provided training in reconstruction needs such as road and home construction, electrical installation and use of information technology. Evaluation of the program showed some 80 percent of the 300 graduates were employed or had started their own businesses in the area. At the same time, the company launched a joint effort to develop a new polytechnic in Aceh to support longer-term skills and economic development. This was opened in 2009 and offers courses in electronics engineering, engineering, robotics, information technology and accounting. The company has also supported the local Business Startup Establishment project, which aims to start over 1,000 small business and micro-enterprises.

The Partnership for Lebanon – Launched in September of 2006 in the aftermath of the Israeli-Hezbollah war, the Partnership for Lebanon was led by five corporations: Cisco, Intel, Microsoft, Ghafari Associates, and Occidental Petroleum. They worked with diverse partners including the Lebanese government, local business associations and local and international agencies, such as ANERA, Al Majmoua, Ameen, Habitat for Humanity, Mercy Corps, Relief International and UNICEF. The goal was to support Lebanon's reconstruction, stabilization and economic growth. Activities focused on five areas: connected communities; workforce

training and education; job creation and private sector revival; ICT infrastructure; and relief and response. The partnership leveraged the knowledge and experience of the supporting companies while also laying the groundwork for long-term productivity of Lebanese businesses and opportunities for youth. Activities included a home reconstruction program, loans and technical assistance to support rural-based information technology businesses, and IT training centers and public school programs.

Haiti Hope – To support longer-term rebuilding and development following the 2010 earthquake, this project has been launched by the Coca-Cola Company working in partnership with USAID, the Inter-American Development Bank, and the Clinton Bush Haiti Fund, with the NGO TechnoServe as an implementing partner. The initiative is aimed at strengthening Haiti's rural economic and productive capacities to help build resilience in the years to come. The project is a five-year, US\$9.5 million investment in the further development of the Haitian mango industry. Today, mangos are one of Haiti's top exports and an important crop for local food security, but experts estimate that the industry has significant growth potential. There is opportunity to expand the productive capacity of existing mango trees and improve farming practices to generate higher returns for mango farmers. The project aims to enable 25,000 farmers to double their farm income, while also supporting the formation and financing of mango producer groups and rural infrastructure. Additionally, value-added activities may also prove viable, including local processing of mangos into juice or dried fruit.

Connecting Sichuan – This is a collaborative initiative between Cisco and the Government of China. Initiated in 2008 after the Sichuan earthquake, it leverages Cisco's networking capabilities and extensive technical expertise to improve the quality and reliability of healthcare and education for affected populations, especially in rural areas. The company made a US\$45 million, three-year commitment to the initiative, bringing in more than 47 government entities, non-governmental organizations, systems integrators and solutions providers. The healthcare initiative is implementing mobile solutions for disease surveillance and training, and supporting a multi-hub telehealth network to connect regional and national hospitals. By the end of 2010, networking and collaborative technologies had been installed at over 40 hospitals and some 4,700 health, education and IT professionals had received training. The education initiative is providing technology and training in targeted schools and vocational colleges, establishing Cisco Networking Academies and supporting teacher professional development and training. To-date over 20 schools, two colleges and more than 500 classrooms had been equipped, reaching an estimated 1,000 teachers and 31,000 students and 50 new Networking Academies are serving some 5,000 students.

Sources: Partner and company websites

(vii) Fund research, public awareness and advocacy for development

As outlined in the section on core business operations, scientific, social and economic research is a crucial driver of development. More research needs to be targeted at meeting the needs of the poor. A small vanguard of companies is starting to address this challenge through their mainstream R&D budgets and this is clearly where the major resources are to be found. At the same time, there is an opportunity to leverage corporate philanthropy budgets more effectively to support credible and independent research focused on improving humanitarian assistance and building more inclusive and sustainable markets for the poor. Corporate philanthropy, together with social marketing, cause-related marketing and public service announcements, can also help to raise public awareness and improve knowledge about key development issues in both donor and developing countries.

Building the capacity of scientists, researchers, policy think tanks, research institutes and universities based in developing countries is another opportunity that requires greater focus and support on the part of large companies and their corporate foundations and philanthropic efforts. As the Hewlett Foundation notes, “Policymakers in developing countries often lack credible, objective information to address increasingly complex social and economic issues. Independent think tanks can play a critical role in supplying this information and improving the national debate about policy options.”⁸⁴ Several major initiatives focused on this goal have been launched in the past two years by private foundations. Where relevant and appropriate, these and similar efforts warrant engagement from multinational and large domestic companies, either as providers of additional resources, as research subjects, as dialogue partners and/or as policy advocates.

In addition to funding developing country-based research and researchers, companies could also do more to initiate or support ongoing efforts in building the capacity of local media, journalists and broadcasters in these countries. An open and free media is a vital component of good governance and in ensuring accountability of governments, corporations and other influential actors. The media can also play a crucial role in raising public awareness and educating citizens on specific public health issues, information relevant to the productivity, market access and resilience of smallholder farmers and enterprises, and supporting basic education and literacy. As outlined in Part Four of the report, companies have supported a number of successful collaborative efforts to promote public awareness and action on HIV/AIDS in Africa, India and China and in other public health messaging. More could be done in this area.

When it comes to funding research and public awareness campaigns, there are well-cited concerns about corporate foundations being too closely aligned to corporate business interests, especially given the tax benefits they gain from having nonprofit or charitable status in many countries. This is a valid concern. There is a need for corporate foundations, especially those engaging in controversial sectors such as public health, nutrition and food security, biotechnology, water and climate change, to be accountable and transparent about their goals, beneficiaries and research findings.

Box 20 provides a brief overview of six corporate foundations and philanthropy programs that are supporting research and also helping to raise public awareness and advocacy on key development issues.

Box 20: Corporate foundations and philanthropy as catalysts for development research, public awareness and advocacy

The Nike Foundation and 'Investing in the Girl Effect'

The Nike Foundation began its focused investment on adolescent girls in developing countries in 2004. From the outset, the foundation set out to combine rigorous research and empirical evidence with inspiring stories to make a compelling case that investing in girls and improving their lives will have a powerful ripple effect on tackling poverty. The foundation's targeted strategy and innovative approaches have mobilized Nike's own resources, leveraged millions of dollars in additional funding from other philanthropists, governments and the general public, funded influential research, challenged politicians and policy makers, raised public awareness and put the crucial importance of investing in girls onto the international development agenda.

The foundation has funded groundbreaking research by think tanks and institutions such as the International Center for Research on Women, the Population Council, the Center for Global Development and the Jameel Poverty Action Lab at MIT. It promotes research findings on key policy platforms such as the World Economic Forum and World Bank supported by the personal leadership of the company's CEO. At the same time, it has tapped into the company's marketing skills, media networks and culture of innovation to raise public awareness and provide practical guidance to individuals and institutions on how to get actively engaged. In addition, the Foundation has funded a variety of programs on-the-ground to directly invest in and with girls in some of the poorest regions of the world. And it has funded evaluation and learning from these projects to build the case for investing in girls and to share lessons on what works in practice.

The Novartis Foundation for Sustainable Development

The Novartis Foundation is a nonprofit think tank on international development and humanitarian issues. It forms part of the corporate responsibility portfolio of the Novartis Group and is fully financed by the company. Although health and corporate responsibility are part of its research focus, the foundation is structured to carry out its work independently from the company's business activities and is governed by an independent board. The foundation has a legacy dating back to the 1970s when it was called the Ciba-Geigy Foundation for Cooperation with Developing Countries, one of the first OECD-based corporate foundations dedicated to international development. Today it states its goal as, "the sustainable improvement of the quality of life of the poorest people in developing countries. We aim to help in the formulation and shaping of development policy and practices, in order to reduce poverty and social inequality. We do this through a synergistic approach of research, information and advice on development policy, and practical development work."⁸⁵

Research projects and publications are supported in the areas of: population policy and sustainable development; business ethics and globalization; governance and development; health policy in conditions of poverty; and access to basic health care in developing countries. In addition the company convenes regular dialogues and public lectures on development issues and serves as an advisor to various governmental organizations. It also supports about eight strategic projects focused on access to health and community development in Africa and India.⁸⁵

Syngenta Foundation for Sustainable Agriculture

The Syngenta Foundation is a nonprofit organization that was funded and created by Syngenta under Swiss law in 2001. It has access to the company's expertise and resources, but is legally independent with its own board of directors. Its mission is to create value for resource-poor small farmers in developing countries through supporting research and innovation in sustainable agriculture and activating value chains that help farmers to access services such as extension, credit and microinsurance, innovative technologies and markets. The foundation funds scientific and policy research and supports projects that focus on 'pre-competitive' farmers, often in semi-arid areas in Africa, Asia and Latin America, who display potential for agricultural growth. It is on the private sector committee of the Consultative Group on Agricultural Research (CGIAR).

Research projects and field programs are usually carried out in partnership with other private and public sector funders and also engage Syngenta scientists and technical expertise. They include plant breeding research on bio-fortification and insect resistant wheat, maize and sorghum varieties, scientific and regulatory capacity building in developing countries to better harness the opportunities and manage the risks of biotechnology, and in-country extension projects to improve farmer productivity and income generation. The foundation is also engaged in developing markets for farmer inputs and their crops. And it supports a number of new financing models from working with insurance companies, ICT and mobile telephone operators on weather index-based microinsurance to supporting the global BioCarbon Fund, managed by the World Bank.

Source: Company and partner materials

Box 20: Corporate foundations and philanthropy as catalysts for development research, public awareness and advocacy continued

The Alcoa Foundation's Conservation and Sustainability Fellowship Program

The Alcoa Foundation launched its Conservation & Sustainability Fellowship Program in 2005. Its goal is to advance research and knowledge in the field of conservation and sustainability through supporting a combination of pure and applied research and through facilitating interdisciplinary collaboration. It achieves this by awarding competitive fellowships to outstanding academics and their institutions and to practitioners from non-governmental organizations. Research grants are accompanied by opportunities to meet, collaborate and widely disseminate the research findings and insights, with a goal of influencing the adoption of more environmentally sound policies and practices and creating a global alumni network of future leaders and mentors with a commitment to conservation and sustainability. The US\$10 million program receives advice from a panel of external experts in addition to business unit and functional leaders within Alcoa.

Five academic partners have been selected to host up to 30 post-doctoral fellows working on interdisciplinary projects – Curtin University of Technology the London School of Economics and Political Science; Tsinghua University, University of Michigan, and University of São Paulo. These academic partners are in countries important to the company's business and influential in global policy on sustainability issues. In addition, three nonprofit sustainability institutes have also been selected by a competitive process to mentor up to 60 practitioner fellows, who are mid-career professionals from NGOs. They are International Union for Conservation of Nature (IUCN) in Switzerland, Tecnológico de Monterrey in Mexico and World Wildlife Fund in the United States.

The HSBC Climate Partnership

In 2007, the global banking group HSBC made a US\$100 million, five-year commitment to launch the HSBC Climate Partnership. This supports four leading environmental NGOs in researching and tackling the causes and impacts of climate change. They are the Climate Group, WWF, Earthwatch Institute, and Smithsonian Tropical Research Institute. The initiative is supporting scientists to help improve understanding of how forests interact with carbon and climate. It is exploring different approaches to protect major rivers such as the Amazon, Ganges, and Yangtze from the impacts of climate change and to make some of 450 million people who rely on these rivers less vulnerable. And it is working with some of the world's largest cities in China, India, the United States and the United Kingdom to develop models of more systemic city-level approaches to climate change mitigation and adaptation. The initiative also aims to engage the bank's employees and the public to raise their awareness of climate change and get them involved in community volunteering and research projects.

Achievements to date have included the establishment of several new research initiatives, the creation of networks of scientists and volunteers, the launch of consumer campaigns in the United Kingdom, United States, Hong Kong and Brazil, and engagement with major corporations and government leaders on specific projects. The HSBC Climate Partnership forms part of the bank's broader commitment to sustainability through its core business operations. These include its adoption of the Equator Principles to manage social and environmental risks associated with project finance and its development of new financial services and instruments in areas such as microfinance, rural development, water and climate mitigation and adaptation.

The GSK African Malaria Partnership

GSK has made a public commitment through its core business operations to invest in ongoing research into new malaria medicines, treatments and vaccines and to provide preferential pricing of its anti-malarials in the least developed countries. At the same time, the company is supporting a variety of philanthropic and community investment activities to combat malaria funded through the GSK African Malaria Partnership (AMP). AMP was established in 2001 to improve both the prevention and treatment of malaria in sub-Saharan Africa. In its first phase, the partnership supported public awareness campaigns to drive behavior change in eight countries, encouraging people to sleep under insecticide treated bednets and seek treatment for fevers.

In 2005, AMP partnered with the Malaria Consortium to launch Mobilizing4Malaria. This three-year advocacy initiative in Europe and Africa was aimed at raising public awareness and driving increased political commitment and funding to tackle the disease. In 2006, Mobilizing4Malaria established national 'Coalitions Against Malaria' in the United Kingdom, Belgium, France, Ethiopia, Cameroon and Mozambique. These coalitions bring together activists, politicians, the media, the private sector and the scientific and academic communities. In Africa, they collaborate with existing networks to represent a united advocacy voice on malaria. The initiative has also supported advocacy innovation grants to inspire African civil society organizations and the media to become champions in the fight against malaria. In 2009, AMP extended its support to strengthen these national coalitions and help them to secure other sources of funding.

SUMMARY OF CORPORATE PHILANTHROPY, VOLUNTEERING AND COMMUNITY SOCIAL INVESTMENT

AN AGENDA FOR CORPORATE ACTION

- **Align core competencies with specific development goals**
- **Mobilize skilled volunteers for development projects**
- **Crowd-source solutions through online platforms**
- **Seed-fund innovation and entrepreneurship**
- **Strengthen the capacity of local leaders and institutions**
- **Connect humanitarian relief with long-term recovery and resilience**
- **Fund research, public awareness and advocacy for development**

I. LARGE CORPORATIONS

3. Engaging in public policy dialogue, advocacy and institution building

Ultimately, no matter how inspiring the examples of individual corporate engagement – whether through core business operations, philanthropy, social investments or hybrid approaches – improvements in public policy and institutional capacity are necessary to achieve the scale needed to lift millions of people out of poverty.

Clearly, efforts to ensure that public policy is pro-poor and pro-business, especially supportive of small business, are the responsibility of government. Both developing country governments and donor governments must take the lead. But the private sector plays a substantial role in influencing public policy, especially large corporations, representative trade and industry associations and leadership coalitions of companies working together.

The relationship between corporate responsibility and the public policy frameworks or governance context within which companies are operating – whether global, national or local – is one of the least researched, yet strategically important issues in the discussion on business and international development. This interface is likely to come under growing scrutiny in the coming years, both by supporters and critics of business, and by companies and policymakers themselves.⁸⁶

Compliance with the law and the implementation of due diligence policies and management systems to respect human rights must be the starting point for any large company. There is also the need to tackle corruption and to be accountable and transparent in dealing with public officials. Even these fundamental responsibilities can be very challenging for companies operating in situations with weak governance. At the same time, as the social, environmental and security problems faced by individual nations and by the international community become increasingly complex and pose ever greater risks for business, large companies will be expected to do more.

In discharging their responsibilities to their owners, business leaders will have to concern themselves more strategically with the policy issues and public goods that are likely to affect the broader prosperity, security and sustainability of the countries and communities in which they operate. The ability to identify and prioritize these and then determine the best strategies for addressing them, either individually or collectively, will be an increasingly important mark of good business leadership in the years ahead. As McKinsey & Company noted about the results of a 2006 *McKinsey Quarterly* survey,

“Although lobbying – often behind closed doors – is as old as business itself, high-level and concerted corporate activism in the social and political arena has been conspicuous by its absence. That deficiency, executives tell us, is the result of short-term financial pressures, a lack of familiarity with the issues, and the sense that specialists in the public-affairs and legal departments handle this sort of thing. Such thinking, we believe, is dangerous and wrong headed. Business leaders must become involved in sociopolitical debate not only because their companies have so much to add but also because they have a strategic interest in doing so.”⁸⁷

In a 2010 McKinsey survey on how business interacts with government, 71 percent of respondents agreed that companies should proactively and regularly engage with government, but only 43 percent

said that their companies actually do so and executives indicated that they are not particularly good at it.”⁸⁸

It is particularly difficult for the business community to stand on the sidelines when there are serious governance gaps or institutional failures. As the Secretary-General of the OECD notes, “Investments in places with weak public governance pose some of the most difficult ethical dilemmas confronting international business today. In addition to the human suffering it causes, weak public governance forces companies and managers to ask: if governments cannot or will not assume their roles and responsibilities, what then is the role of business?”⁸⁹

The role of the private sector in influencing the quality of governance – either national or global – is especially sensitive. Even when companies act through representative trade and industry associations, many question the mandate and legitimacy of business to influence national governance, let alone to shape global governance frameworks, norms and standards. There is no doubt, however, that companies and business associations do influence political and governance processes, – both transparently and behind closed doors, both for the common good and vested self-interest, both positively and negatively. The challenge for responsible companies is to ensure that they engage in public policy debates and governance issues in an accountable and wherever possible transparent manner.

The most effective and legitimate response by business will vary depending on the industry sector and on the type of governance and institutional frameworks in the country or situation in question. However, there are a number of actions that all large companies can take to participate in public policy dialogues and advocacy platforms and to help governments build institutional capacity in a manner that supports development goals and helps to alleviate poverty. These actions can either be on an individual or collective basis. They include efforts by business to:

- (i) Tackle corruption and promote good governance
- (ii) Strengthen public institutions and administrative capacity
- (iii) Contribute to national development plans and poverty alleviation strategies
- (iv) Advocate for pro-development policy reform.

In each of the above areas, every large company must take steps to ensure that it is compliant and upholding responsible business practices in its own operations and value chains, as outlined earlier in the report. Due diligence management systems must be in place, for example, to minimize the potential of the company contributing to corruption or weakening public institutions or undermining social and environmental policies. At the same time, companies need to consider if and how to engage with the public policy agenda beyond their own operations. If an individual company has excellent internal due diligence processes but the broader environment is rife with corruption or weakened by lack of public capacity, there is often no choice but to get engaged in the broader policy agenda. In such cases, action is usually more effective and legitimate if taken through business associations or coalitions of companies working with each other and with organizations from other sectors. As such, most of the following policy interventions call for collaborative action, some examples of which are covered in more detail in Part Four.

(i) Tackle corruption and promote good governance

The UN Global Compact captures the negative impact of corruption on the creation of business value and development impact as follows: “Corruption is recognized to be one of the world’s greatest challenges. It is a major hindrance to sustainable development, with a disproportionate impact on poor communities and is corrosive on the very fabric of society. The impact on the private sector is also considerable – it impedes economic growth, distorts competition and represents serious legal and reputational risks.”⁹⁰

Many companies avoid investing in locations where corruption is high, but where strategic natural resources are located in these countries or where a situation deteriorates, companies must decide whether to invest/remain or disinvest. If they invest or remain, they are under increasing pressure to have due diligence processes in place to ensure the integrity and ethics of their own operations and to join forces with industry peers and other stakeholders to tackle corruption more systemically.

Collective action can include:

- Participation in voluntary anti-corruption, accountability and transparency mechanisms within and across industry sectors. Initiatives such as the integrity pacts promoted by Transparency International, the UN Global Compact, which has anti-corruption as its 10th Principle, and the World Economic Forum’s Partnering Against Corruption Initiative are examples. The International Chamber of Commerce has a long-standing Commission on Anti-Corruption and serves as the secretariat for the Business Action to Stop Counterfeiting and Piracy initiative. Collective action is also gathering momentum at the sector level in industries such as oil, gas and mining, construction and finance.
- Active engagement in representative chambers of commerce, local business associations and cooperatives in developing countries. Provision of funding, technical assistance and networking support can help these local private sector institutions to increase their voice in public policy debates and to tackle systemic challenges such as corruption, legal and regulatory reform, lack of property rights and weak corporate governance.
- Efforts to help strengthen government institutions that focus directly on tackling bribery. And effort to improve administrative capacity, checks and balances and transparency in public institutions that allocate or receive large amounts of money, whether from taxes, the private sector or donors.
- Philanthropic programs to support and strengthen local civil society organizations and media efforts that are focused on tracking public revenues and promoting good governance and accountability.

Tackling corruption is an integral part of efforts to improve both corporate governance and public governance more broadly. The Center for International Private Enterprise (CIPE) is one example of a nonprofit organization that has played a leadership role on addressing these issues. CIPE focuses on the inter-relationship between democracy, free markets and private enterprise. It works with local

partners, chambers of commerce, individual companies and governments to help build the legal and institutional structures necessary to build market-oriented, democratic societies. Since it was founded in 1983 CIPE has provided grants and technical support for over 1,100 projects in 100 countries. It often works with large foreign investors, leveraging their knowledge and skills, as well as helping to build the capacity of local private sector institutions.

CIPE has eight major areas of work. These provide a useful framework for thinking about the interventions that large companies can make to tackle corruption and promote good governance in support of poverty alleviation and development. They are as follows:

- **Democratic governance:** creating and strengthening institutions of accountability and increasing public participation in reform.
- **Combating corruption:** improving governance mechanisms and standards and making a link between cultural norms and the rule of law, with leadership from the private sector.
- **Business association development:** supporting grassroots participation of private sector organizations.
- **Corporate governance:** programs to educate private sector leaders and the public on fairness, accountability, responsibility and transparency.
- **Legal and regulatory reform:** working with the local private sector to identify laws and regulations that hinder business activity and recommend reforms.
- **Access to information:** supporting local partners to promote greater transparency in government and achieve an unrestricted voice for reformers.
- **Women and youth:** supporting entrepreneurship programs for women and youth.
- **Informal sector and property rights:** efforts to increase the voice and participation of the informal sector, to reform small business registration procedures, and to strengthen private property rights.⁹¹

(ii) Strengthen public institutions and administrative capacity

Closely linked to the challenge of promoting public accountability and transparency is the problem of weak institutional and administrative capacity in many national, regional or municipal governments. Often governments that are democratically elected and making every effort to improve governance find it difficult to effectively serve the needs and aspirations of their citizens, due to constraints financial, human or infrastructural resources. Although institution building is primarily a function of governments and donors, the private sector can play an important role, especially in the area of building economic and financial institutions, but also helping to strengthen education, health and even justice systems. Some examples of corporate philanthropy engagement in strengthening public institutions, as well as nonprofits in developing countries were provided in the previous section. Other collective examples include:

- The Joint Initiative for Priority Skills Acquisition, Business Against Crime, and the Education Quality Improvement Programme (EQUIP) in South Africa;
- The Education Quality Improvement initiative in Brazil,
- The African Investment Climate Facility, and
- The Business Action for Africa initiative for Improving Customs Administration.

As outlined in Box 10, the role of information technology can be especially important in helping governments to strengthen their administrative and outreach capacity, and to better serve their citizens. Leading information technology companies are increasingly active in e-government efforts on both a commercial and social investment level.

(iii) Contribute to national development plans and poverty alleviation strategies

As outlined above, representative trade and industry associations and chambers of commerce have a vital role to play in tackling corruption, promoting good corporate and public governance. They are also essential in creating an enabling environment for private sector development, and for inclusive and responsible business models and markets. In addition, companies and business leaders' organizations can play an active role in supporting broader social and environmental policies. They can also support governments more proactively in developing and implementing national development plans and poverty alleviation and growth strategies.

In a few developing countries, large companies are joining forces to create national business leadership coalitions or to support joint public-private consultation structures focused on addressing key development challenges. Their aim is to ensure more organized and systematic engagement of the private sector in national policy planning and implementation around key development areas such as national poverty reduction strategies, energy, health and education policies etc.

These are not traditional trade associations or chambers of commerce lobbying directly for business interests, but new models aimed explicitly at co-creating policy solutions to national development challenges. These 'business and development' leadership coalitions are currently few in number but they warrant further analysis and experimentation. Examples include:

- National Business Councils for Sustainable Development;
- The Country Coordinating Mechanisms of the Global Fund on HIV/AIDSs, TB and Malaria;
- National Business Coalitions on HIV/AIDS ;
- National Industry Charters for Development;
- Public-Private Policy Forums; and
- National 'Business and Development' Coalitions such as South Africa's Business Trust and National Business Initiative, Philippines Business for Social Progress, Brazil's Instituto Ethos and Vietnam's Business Forum, some of which are profiled in Part Four.

(iv) Advocate for pro-development policy reform

There are well-documented examples of aid, trade, investment and socio-economic policies in both donor and developing countries that undermine poverty alleviation and development and that call for reform. They include market distortions to pro-poor growth such as agricultural subsidies in developed countries. They include failure to prioritize education, health and productive infrastructure in national budgets over non-productive public interventions or unnecessary military spending, and failure to address crucial environmental and social challenges such as climate change. They include legal frameworks that fail to protect the poor or to empower them as economic actors. These failures can sometimes be tackled by lobbying and advocacy campaigns and by public support for progressive policies and policymakers from citizen-led groups, business associations, think tanks and academic institutions.

Corporations spend billions of dollars a year on lobbying governments both directly and through a wide variety of trade associations, nonprofit organizations and lobbyists. As Kyle Peterson and Marc Pfitzer argue in a 2009 article *Lobbying for Good*,

“Much corporate lobbying has a poor reputation, particularly among nonprofits that battle corporations over environmental, health, and consumer fairness legislation. Even corporations with kinder, greener practices sometimes support legislation that directly contradicts their socially responsible image. ... Yet corporate advocacy need not always be self-interested. Traditionally, nonprofits have promoted social issues in the halls of power. But corporations, with their carefully cultivated connections, wider lobbying leeway, and proficiency in influence, are often better equipped to make the case for stopping domestic violence, improving safety on the roads, thwarting climate change and fostering economic development – to name just a few social change efforts.”⁹²

Peterson and Pfitzer propose three different targets of lobbying for good: *generic social issues*, which are critical to society but not immediately consequential to a company’s business; *value chain social impacts*, which are the footprints a company leaves behind through its normal operations; and *social dimensions of competitive context*, which are the external conditions (e.g., strong schools and good roads) that a company needs to succeed.⁹³ All three of these targets have relevance for pro-development policy reform, but the closer companies and business leadership groups can focus on social dimensions of their own competitive context, the greater the likely impact for creating business value and development results.

Lobbying for pro-development policies can take a number of forms, from high-level policy dialogues, to support for independent research to public awareness campaigns. They can take place within developing countries led by local business leaders and companies, or in donor countries, aimed at promoting policy reform in areas such as aid, trade, investment and climate change. Some examples of collective efforts include the following:

- **Corporate advocacy for development and poverty reduction:** In the United States, the Initiative for Global Development has mobilized several hundred American business and civic leaders to publicly call on the United States government to, ‘make the elimination of extreme

global policy a priority'. IGD focuses its efforts on aid, trade and investment reform. A vanguard of companies is also active in the U.S. Global Leadership Campaign; the Business Coalition for Global Development; the Corporate Council on Africa; and the Modernizing Foreign Assistance Network. In the UK, Business Action for Africa has brought together over 50 companies and business networks to share good practices, and mobilize public awareness, political support and private resources for African development. Within developing countries themselves, more business groups are starting to engage proactively with their governments in the development of national growth and poverty reduction strategies.

- **Corporate and investor advocacy on climate change:** Progressive business-led initiatives in Europe, the United States and the major emerging economies of Brazil, South Africa, India and to a lesser extent China are starting to play an important role in putting climate change more firmly on the public policy agenda. They include the Climate Leaders Group in Europe, the U.S. Climate Action Partnership, the Investor Network on Climate Risk, the Energy and Climate Programme of the World Business Council for Sustainable Development, the World Economic Forum's Task Force on the Low-Carbon Global Economy and national efforts such as Instituto Ethos in Brazil and the National Business Initiative in South Africa.

Leading think-tanks focused on development have also started to look more strategically at the role of the private sector and markets in alleviating poverty. The Overseas Development Institute and the Center for Global Development in particular are playing a leadership role, by researching and working with private sector actors and exploring a variety of market-based solutions to development. Over the past five years, a number of other leading policy think-tanks have established programs on international development, including the role of the private sector. These include Brookings, Chatham House, the Center for Strategic and International Security Studies, the Council on Foreign Relations, and the Center for American Progress.

In summary, effective public policy and good governance are the essential foundation on which sustained economic growth and poverty alleviation are built. As part of the emerging corporate social responsibility agenda, companies and business associations are playing a more proactive and influential role in shaping governance structures and public policies, not only as they relate directly to economic growth and private sector development, but also to support the achievement of broader economic, social and environmental goals.

There should be no doubt that the major responsibility for avoiding bad governance, strengthening weak governance and aligning political will with public interest rests with governments themselves – at the local, national and global level. It is important that companies and business associations ensure that their engagement on public policy issues is accountable, consistent and transparent. They also need to manage the expectations of their stakeholders in terms of what they can and cannot do when it comes to addressing public governance gaps and institutional failures. Yet, companies can play a proactive and progressive role beyond traditional lobbying efforts. As Peterson and Pfitzer note, tapping into this potential requires, “resisting two knee-jerk reactions: one from critics who believe that corporate lobbying in any form is bad for society, and a second from corporate managers who look to lobbying merely to defend the *status quo*.”⁹⁴

Internally, there is potential for large corporations to improve dialogue between their corporate responsibility departments and government relations and public affairs teams.

Integrating corporate responsibility and public policy issues at the Board of Directors level, for example through a board committee, can also support better governance structure of these issues. Large companies can also identify and publicly communicate their position on key public policy issues that represent specific risks and/or opportunities to the company and/or its industry sector. Public communication can range from public policy sections on company websites and in their annual sustainability reports, to chief executive speeches and statesmanship on these issues.

Some companies are establishing external, independent stakeholder advisory groups to serve as a sounding board on particularly sensitive public policy issues or concerns, such as biotechnology, health, environment and energy issues. And, as profiled in Part Four of the report, there is potential for companies to participate in industry-wide or multi-stakeholder collaborative initiatives to tackle complex and systemic public policy challenges that are crucial to economic growth and poverty alleviation, but which no one company or sector can address on its own.

SUMMARY OF PUBLIC POLICY DIALOGUE, ADVOCACY AND INSTITUTION BUILDING

AN AGENDA FOR CORPORATE ACTION

- **Tackle corruption and promote good governance**
- **Strengthen public institutions and administrative capacity**
- **Contribute to national development plans and poverty alleviation strategies**
- **Advocate for pro-development policy reform**

II. 'HIGH-IMPACT' ENTREPRENEURS

Throughout history, entrepreneurship has been one of the driving forces of innovation, wealth creation and social transformation in every successful economy. Yet, until recently targeted recognition of and support for high-impact entrepreneurs and the systems that nurture them has been missing in most international development programs and developing country poverty alleviation strategies.

As Carl Schramm, President and CEO of the Kauffman Foundation has observed, development policies have traditionally tended to focus on macroeconomic issues and general institution building: “Entrepreneurship, meanwhile, is considered only as an afterthought and in piecemeal fashion.”⁹⁵ When the development community has focused attention on entrepreneurship, the emphasis has usually been on small business development more generally or in recent years on supporting micro-enterprises. Small and micro-enterprises are essential for helping to alleviate poverty. Yet, very few small and micro-enterprises will grow into medium or large businesses, employ more than 20 people, integrate into formal value chains or have the capability to serve as ‘aggregators’ for other small and micro-enterprises thereby facilitating the access of other businesses to formal markets. Even fewer will spearhead technological change and innovation or have a systemic impact on solving development challenges in their communities and countries more broadly.

There is a vital sub-group of individual entrepreneurs who do have the potential to play a crucial role in growth, innovation, job creation and systems change. There is a critical need to identify them and support them. They include:

- ***‘Opportunity’ entrepreneurs:*** commercially driven, for-profit entrepreneurs who create value and stimulate growth by bringing new ideas, technologies, products or processes to market or by improving existing products and business models. Most don’t have an explicit social mission, but many have the potential to make a broader contribution to development.⁹⁶
- ***Social entrepreneurs:*** individuals who apply innovative and performance-driven approaches and/or technologies that are explicitly aimed at solving societal problems and creating social or environmental value. They assume a variety of legal and operational models from enterprising nonprofit entities that have a self-financing component, to for-profit social businesses and hybrid enterprises that combine both for-profit and nonprofit legal models.⁹⁷
- ***Social intrapreneurs:*** entrepreneurial individuals and innovators working within larger corporations and institutions who are catalyzing or scaling inclusive business models and innovative new approaches to tackle social and environmental challenges.⁹⁸

For the purpose of this report this diverse group of individuals is termed as ‘high-impact’ entrepreneurs. As Linda Rottenberg, founder of Endeavor, comments: “High impact entrepreneurs have the biggest ideas and most ambitious plans. They have the potential to create thriving companies that employ hundreds, even thousands of people, and generate millions in wages and revenues. And they have the power to inspire countless others.”⁹⁹

These ‘high-impact’ entrepreneurs are individual ‘change-agents’ and innovators who either lead their own commercial or social enterprises or who play transformational leadership roles within larger corporations, institutions and networks. They share the following common aspirations and mindsets:

- **Innovation** – They develop or improve viable ideas for new technologies, products, services, business models, processes or policies that solve an unresolved problem or serve an unmet need.
- **Value creation** – They identify and seize opportunities to create either economic value and/or social and environmental value, and often a combination of both.
- **Growth orientation** – They focus on achieving scale, whether by increasing their own size or by achieving greater reach and impact by partnering with others or harnessing technology platforms.
- **Systemic transformation** – In the most ambitious cases, they envision and work to realize sector-wide or national systemic change and impact.

Many of them have been enabled by the power of new information technologies. As the Economist magazine commented in a 2009 special report on entrepreneurship, “The triumph of entrepreneurship is driven by profound technological change. A trio of innovations – the personal computer, the mobile phone and the Internet – is democratizing entrepreneurship at a cracking pace. Today even cash-strapped innovators can reach markets that were once the prerogative of giant organizations.”¹⁰⁰

In the context of this report, ‘high-impact’ entrepreneurs are those individuals who play a catalytic role in building more inclusive business models and markets by starting and/or scaling new solutions to poverty alleviation, or replicating solutions that have succeeded elsewhere. They often play a vital intermediation role between the poor and formal markets, serving as the linkage mechanisms or aggregators that enable the poor to integrate into formal value chains as producers, employees and customers.

Some of the greatest innovations in market-based solutions to poverty alleviation are being driven by this group of often small, but agile and aggressive commercial and social enterprises or by units within larger companies that are led by entrepreneurial individuals. As the Global Entrepreneurship Monitor, Kauffman Foundation, Monitor Inclusive Markets and others have shown, they often struggle to scale, but they offer untapped potential for alleviating poverty and warrant further analysis and support. In particular, greater attention needs to be paid to identifying, financing, capacity building and connecting these high-impact entrepreneurs and to building ecosystems to nurture high-impact entrepreneurship in developing countries more generally.

The following pages look at different approaches for:

1. Mobilizing Opportunity Entrepreneurs
2. Scaling the Impact of Social Entrepreneurs
3. Empowering Social Intrapreneurs.

II. 'HIGH-IMPACT' ENTREPRENEURS

1. Mobilizing opportunity entrepreneurs

The Kauffman Foundation and the Global Entrepreneurship Monitor (GEM) make the distinction between:¹⁰¹

- “*Opportunity entrepreneurs*,” who make an active choice to start a new enterprise based on the perception that an unexploited or underexploited business opportunity exists; and
- “*Necessity entrepreneurs*,” who have to become an entrepreneur because they have no better option – and in the case of many of the world’s poorest citizens have to be entrepreneurial in order to literally survive and feed their families.

The Aspen Network of Development Entrepreneurs (ANDE) has coined the term “Small and Growing Businesses” to depict those opportunity entrepreneurs who operate, “commercially viable businesses, often with less than 250 employees, that have strong potential for growth and thus for creating social and economic benefits in the community and more broadly the economy.”¹⁰² In short, ‘opportunity’ entrepreneurs are not only entrepreneurs by choice, but they have the potential for growth. Many also have the potential to make a contribution to development and poverty alleviation more broadly. Although research is limited on their broader development impact, evidence suggests that it is positive.

One analysis of the development impact of opportunity entrepreneurs was conducted by Small Enterprise Assistance Funds (SEAF). SEAF has a twenty-year track record in 30 developing countries of providing growth capital and operational support to small and medium enterprises that it assesses to be extraordinarily growth-oriented. In 2007, SEAF surveyed the development contribution of 49 companies in its portfolio of some 250, and carried out more detailed case studies on 18 of them. It used an IFC methodology that looks beyond financial returns to assess the impact of these growing businesses on the lives of employees and other stakeholders in the local economy. Some of the key findings are summarized in Box 21.¹⁰³

SEAF concluded that:

“Supporting SMEs with high growth potential can generate significant and sustainable development impact. Whether or not a vibrant SME sector as a whole is an important foundation for economic growth and poverty alleviation, SEAF’s studies show that its portfolio of companies (those that pass the review and due diligence of a seasoned fund manager and are willing to accept third party capital to pursue growth) generate attractive financial returns, demonstrate strong development performance in terms of indicators related to employees, suppliers and other stakeholders, and make other important developmental contributions that are less easily quantified, such as addressing market deficiencies, bringing micro-suppliers into the value chain, and making profound differences in the lives of employees.”¹⁰⁴

E&Co. is another organization that has a fifteen-year track record of providing services and capital to more than 200 energy enterprises in Asia, Africa and Latin America. It has developed a social, environmental and financial score card to assess the annual impact of its investment portfolio. This

scorecard shows how these enterprises have made measurable local contributions to tackling energy poverty and climate change while creating local livelihoods and expanding economic opportunity. The June 2009 scorecard is summarized in Box 21.

In its 2009 report, *Paths to Prosperity*, the Monitor Group makes the following argument for the economic, social and political benefits of entrepreneurship. It concludes, “Entrepreneurship creates jobs for local people, rewards merit, integrates immigrant and marginal communities into the socioeconomic fabric, and over time establishes cross-border relationships. It opens doors and gives a broader sector of the population a stake in the economy, and thus, as well, in its ongoing and peaceful functioning.”¹⁰⁵ These inter-related development and security benefits can be especially important in fragile states or post-disaster and conflict situations. The encouraging results of supportive enabling environments for entrepreneurship in post-conflict Rwanda and Mozambique are two examples of the potential.

Box 21: The contribution of ‘opportunity’ entrepreneurs to development

1 Data Survey and Case Study Analysis of SEAF Investments 2007

SUMMARY OF KEY FINDINGS

Multiplier effect: The combined set of 18 case studies shows that every dollar invested generates, on average, an additional 12 dollars in the local economy. This multiplier effect is experienced among multiple stakeholders – including employees, suppliers, competitors, producers of complementary goods, the local community, and the broader local economy – to a greater extent than captured previously.

Impact on the lives of employees: The data survey and additional case studies reinforced the conclusion that [growth-oriented] SMEs tend to hire and train low-skilled workers and promote from within, demonstrating that they can generate jobs appropriate for the poor and can be an effective vehicle for achieving poverty alleviation. 72 percent of jobs generated in the survey went to unskilled or semi-skilled employees. Some 83% of the employees at surveyed companies received health and pensions contributions from their employers and some 85% received some form of training.

‘Aggregators’ of micro-suppliers: Through the data survey, SEAF found that each SME – through its purchase of inputs – supports an average of 331 other local businesses, broken down as follows: 18 manufacturers, 10 distributors, 20 service providers, 3 equipment suppliers, 280 micro-suppliers and farmers, with a high of 6,000 farmers and micro-suppliers for one investee. The SMEs surveyed generated an annual average of \$3 million in business for domestic suppliers in 2005 and 27 percent of them have extended trade credit or other forms of financing to their local suppliers – a generally

underestimated multiplier effect. Interviews provided numerous examples of SMEs serving to address the barriers that micro-suppliers face by operating as collection centers, value-added processors, and distributors to higher value markets, as well as providing suppliers with technical and financial support. In other words, the SMEs serve as ‘market aggregators’ and as a critical link to connect smaller suppliers with customers further up the value chain.

2 E&Co’s ‘Cumulative’ Triple Bottom Line Scorecard as of June 2009

SOCIAL

Access to Clean Energy	5.6 million people
Entrepreneurs Trained	1,000
Income Generated	US\$ 8 million

ENVIRONMENTAL

Carbon Dioxide Reduced	4 million tons
Trees Reforested	525,000
Decreased Oil Consumption	670,000 barrels

ECONOMIC

Capital Invested	US\$ 36 million
Capital Mobilized	US\$ 213 million
Portfolio Return*	8.4 percent

* IRR calculations exclude operating and business development services costs: a large proportion of these costs are covered through contract revenues and grants and not through the proceeds of investment.

(i) Strengthening the ecosystem for opportunity entrepreneurs

There is widespread agreement on the barriers to small business development generally and to ‘opportunity’ entrepreneurs more specifically. In numerous research studies, four common recommendations for mobilizing their potential come up again and again:¹⁰⁶

- Access to growth capital (debt, equity and other forms of financing).
- Access to business development services and networks to improve their skills, organizational capabilities and business contacts. This including training, mentoring and technology support for owners and employees.
- Access to markets to establish value chain linkages, including timely and relevant market intelligence, business relationships, infrastructure that facilitates and lowers logistics costs, and quality standards.
- A supportive enabling environment that fosters an entrepreneurial ecosystems. This ranges from basic conditions such as rule of law, macroeconomic stability, a sound investment climate and level-playing field for business generally, to targeted support for entrepreneurship and innovation such as innovation funds and centers, fiscal incentives, government-supported R&D, entrepreneurship education and skills development, public recognition of entrepreneurs.

While government leadership is essential, especially in the case of the enabling environment, other private sector actors such as large corporations, private financiers, social enterprises, foundations, universities and development NGOs can all play a valuable role in helping to mobilize ‘opportunity’ entrepreneurs. Brief examples of such efforts are illustrated throughout this report.

Intermediary organizations that provide a combination of funding, technical services, access to networks and technology platforms can play an especially valuable role. In many cases, these intermediary organizations are themselves led by high-impact entrepreneurs. Initiatives such as SEAF, E&Co., the Acumen Fund, Root Capital and Endeavor are examples.

In 2009, after extensive consultation, a group of these intermediary organizations joined forces with some corporate and private foundations and academic institutions to launch the **Aspen Network for Development Entrepreneurs** (ANDE). Housed in the Aspen Institute, ANDE is dedicated to advocating for the growth of the Small and Growing Business sector. It also offers services and programs to support the organizations that are operating in this sector. In less than two years, ANDE has grown to a membership of 100 organizations ranging from major foundations and large corporations to venture capital funds, social enterprises and development NGOs – all with a common interest in mobilizing opportunity entrepreneurs in developing countries.

Diaspora networks are another group that can play a valuable role in identifying and supporting opportunity entrepreneurs. Remittances to developing countries have grown dramatically over the past decade to over \$300 billion in 2008 according to the World Bank. While it is estimated that most of this money goes to family members and to support consumption purposes in developing countries, some is directed at funding opportunity entrepreneurs. Educated and highly-skilled diaspora members could have a particularly important role to play by harnessing their peer networks at home and abroad to identify and then provide capital, technical assistance and market access to

high-expectation ‘opportunity’ entrepreneurs back in their home countries. Many are also going home to their own countries to get directly involved in entrepreneurial start-ups.

The role of the Indian diaspora in helping to support access to funds, markets and peer networking for the successful ICT sector in India is the most obvious and well-cited example – aided by the fact that an estimated one third of the software engineers in California’s high-tech Silicon Valley are Indian. The development contribution of diaspora from other Asian countries such as the Philippines, Bangladesh and Pakistan and from Latin America, has also been well researched. And in recent years, there has been increased recognition and analysis of the untapped potential among the estimated 33 million African diaspora.

A World Bank study in 2008 concluded, “Preliminary estimates suggest that sub-Saharan African countries could potentially raise \$1 to \$3 billion a year by reducing the costs of international migrant remittances, \$5 to \$10 billion by issuing diaspora bonds and \$17 billion by securitizing future remittances and other future receivables.”¹⁰⁷ Although these estimates have been undermined by the global economic crisis, they offer some indication of the potential for mobilizing capital and expertise from diaspora communities. If a fraction of that money could be targeted to support opportunity entrepreneurs and backed with technical assistance from skilled members of the diaspora the impact could be substantial.

Entrepreneurship competitions and prizes offer another pathway for identifying, networking and in many cases funding opportunity entrepreneurs with innovative ideas to tackle development and environmental challenges. In a 2009 McKinsey Quarterly article *Using Prizes to Spur Innovation*, the authors conclude, “Ultimately, the ability of prizes to mobilize participants and capital, spread the burden of risk, and set a problem-solving agenda makes them a powerful instrument of change. They offer a valuable form of leverage to sponsors that use them as part of a well-designed strategy.”¹⁰⁸

Examples of competitions, prizes and other initiatives to identify and support high-potential entrepreneurs in developing countries include on-line platforms such as Ashoka’s Changemakers competitions, BidNetwork, Endeavor, the World Bank’s Development Marketplace, the African Diaspora Marketplace, AllWorld Network (modeled on the US InnerCity 100), the World Challenge and TED Prizes. Brief examples of some of these platforms are provided in Box 22.

Large companies also have an important role to play and many are starting to do so through the type of business linkage programs and local content initiatives that were profiled in the section on large corporations. Companies in the IT sector have an especially vital leadership role to play. The Cisco Entrepreneurship Institute provides support for entrepreneurs from conception through launch in nearly 10 countries and online with general business skill curricula and start up information. Microsoft’s BizSpark program offers software resources and technical support to software start ups, as well as the opportunity for these entrepreneurs to profile their enterprises in an online network for potential partners and investors. Private financiers, from banks to private equity firms and providers of ‘patient capital’ such as foundations and angel investors are also increasingly active as outlined in the section on private financiers.

Box 22: Platforms to identify opportunity entrepreneurs

Ashoka's Changemakers

Established in 1981 by Bill Drayton, Ashoka has pioneered the concept and practice of social entrepreneurship. In addition to supporting over 2,000 social entrepreneurs around the world, Ashoka drives innovation and market-based solutions to poverty alleviation in a number of areas. One example is Ashoka's Changemakers. This platform harnesses the power of social media to connect a global online community of people to each other and to innovative ideas and models for social change. Some are community based and many are market-driven. Through a series of online competitions, Changemakers identifies high-potential social solutions and mobilizes financial support for them. Since 2004, Changemakers competitions have surfaced approximately 5,000 high-impact solutions from over 145 countries. They have attracted approximately \$30 million in post-competition investment for innovators around the globe. Examples of competitions include the following:

- A partnership with ExxonMobil, with technical advice from the International Center for Research on Women to explore innovative technology solutions that empower women as economic actors.
- A competition to identify models for strengthening property rights for the poor, supported by the Omidyar network.
- An SME Finance Challenge organized with the G-20, and with support from the Rockefeller Foundation to identify some of the best models for catalyzing finance for small and medium enterprises.
- A competition run in cooperation with the Global Alliance for Improved Nutrition to identify scalable, market-based solutions to fortifying food with micronutrients.

Endeavor

Endeavor was founded in 1997 by Linda Rottenberg and Peter Kellner to identify and support high-impact entrepreneurs and promote entrepreneurship in developing countries. Launched in Chile and Argentina in 1998, by 2010 Endeavor had programs in more than ten countries in Latin America, the Middle East and Africa, while its business model and participating entrepreneurs serve as role models globally. Endeavor operates a five-stage model summarized as: launch; select; support; multiply; and give back. It only launches a new affiliate if there are local private sector leaders who pledge their time and money to lead the initiative. Endeavor staff, local board members and partners then select a portfolio of high-impact entrepreneurs, who have potential not only to drive innovation, wealth and job creation, but also to serve as role models and contribute to development. Endeavor then supports these entrepreneurs by delivering demand-driven services, such as mentorship, networking, strategic advice, skills development, and facilitating access to resources. Services are provided by VentureCorps, a volunteer network of some 1,000 global and local business leaders. The model then aims to multiply the impact of individual entrepreneurs by showcasing them as role models, influencing policy reform and education, and spurring local venture capital. In each location, it aims to become self-sustaining through the entrepreneurs giving-back and via other market-driven revenues. Over 80 percent of Endeavor Entrepreneurs give back to their local affiliates. They have created over 100,000 jobs and generated billions of dollars for local economies. Endeavor measures its impact through growth not only in financial capital, but also human capital and social capital.

The World Bank's Development Marketplace

The World Bank's Development Marketplace (DM) is "is a competitive grant program... that identifies and funds innovative early stage development projects with high potential for development impact and replication." The program is administered by the World Bank Institute, with support from various public and private donors and partners. These have included: the Global Environment Facility (GEF), the IFC, the International Fund for Agricultural Development (IFAD), the Ministry of Foreign Affairs of Denmark, Citibank, Ashoka, Lex Mundi pro Bono Foundation and Lemelson-MIT program. The World Bank outlines: "The primary means for identifying and investing in potential projects is through global and country/regional marketplaces or competitions. Problem-solving entrepreneurs with innovative, poverty fighting ideas compete annually for early-stage seed money to promote small-scale development projects intended to bring concrete benefits to their communities. The winners of the competitions are then linked with partners who have the resources to help them implement their proposals." Since the Development Marketplace's establishment in 1998, it has awarded more than \$54 million to over 1000 projects. Over 1,700 projects applied from 47 countries to the 2009 competition which focused on innovative solutions to climate adaptation. In 2010, the World Bank cooperated in a new initiative with the Agence Francaise de Development (AFD) and the Bill & Melinda Gates Foundation to host a 'Marketplace on Innovative Financial Solutions for Development'.

Source: Websites and materials from the initiatives profiled

Box 22: Platforms to identify opportunity entrepreneurs continued

AllWorld Network

The AllWorld Network was established in 2007, led by the co-founders of the US Inner City 100 and drawing on over a decade of lessons in identifying, networking and publicly promoting high potential entrepreneurs in low-income communities in the United States and United Kingdom. The US Inner City 100 was created in 1999 by Harvard Business School Professor Michael Porter, Anne Habbiby and Deirdre Coyle in partnership with *Inc.* magazine. Its goal was to shine a light on successful entrepreneurs where no-one thought they existed – in America's economically distressed inner cities. In the first year, 120 companies entered the competition. By 2008, there were 8,000 companies competing to be on the US InnerCity 100 list. The top 100 companies grew at an impressive 40 percent a year on average, for five or more years, and created thousands of jobs. The US Inner City 100 became a well-recognized American initiative and helped to drive investment to inner cities and provide entrepreneurs with valuable publicity and networks. In 2007, following the methodology honed over ten years with the US Inner City 100, the founders created the AllWorld Network to find and profile growth entrepreneurs in the Middle East, Africa and Asia. The initiative is starting with series of country-level lists, which include the Saudi Arabian 100, South African 50, India 25, Lebanon 25, Jordan 25, and Egypt 25. They are working with a coalition of on-the-ground partners including business associations, chambers of commerce, universities, alumni clubs, venture funds, banks and NGOs, who will help to identify high growth entrepreneurs and support opportunities for networking, mentoring and publicizing their stories.

BiDNetwork

BiDNetwork is a nonprofit organization based in the Netherlands that has created a global network of entrepreneurs, supported by funding and implementation partners. It was established in 2004 with the goal of stimulating entrepreneurship and economic growth in developing countries by tackling three major obstacles: lack of access to finance for small and medium-sized enterprises (SMEs); high transaction costs of finding and investing in SMEs; and related deal flow challenges. BiDNet sources and selects business plans from small and medium sized enterprises from more than 70 countries and offers tools and connections to the best entrepreneurs to help them access finance. The organization runs the BiD Challenge business plan competition, offers investor matchmaking services and operates an online business community website that links some 35,000 entrepreneurs, experts, companies, investors and coaches from around the world. This online platform is the largest of its kind in the world connecting small and medium-sized enterprises with potential funders, advisors and market opportunities. In addition to the scaling potential of the online platform, BiDNet is working with national alliances and business incubators in a growing number of countries in Africa, Asia, Latin America and the Middle East to help them build national platforms and ecosystems to support SMEs. Its founding partners include the Dutch Postcode Lottery; the Dutch National Committee for International Cooperation and Development; the Dutch Ministry of Foreign Affairs; and ICCO, an inter-church organization for development cooperation. The network is supported by a growing number of international and emerging market banks, companies and NGOs.

The African Diaspora Marketplace

Launched in 2009, the African Diaspora Marketplace (ADM) is a business plan competition supported by the United States Agency for International Development (USAID) and Western Union Company, together with Africa-based EcoBank and the Academy for International Development (AED). The initiative aims to tap into the networks and resources of the U.S.-based African diaspora community to promote economic development in Sub-Saharan Africa. It does so by facilitating diaspora direct investment (DDI) in viable small and medium enterprises (SMEs). The initial focus is on 19 countries where USAID has on-the-ground programs to provide technical assistance. The ADM offers matching grants of up to US\$100,000 to African diaspora working in partnership with African-based enterprises and/or entrepreneurs. Winners for the first round of the competition were 14 diaspora-driven businesses in 13 countries. The included a franchise healthcare model aimed at supporting nurse entrepreneurs in Ghana and a commercial biotechnology business aimed at improving crop yields in Ethiopia.

(ii) Investing in women entrepreneurs

In many countries girls and women still lack the legal rights, economic opportunities and skills to enable them to play a full and equal role in their societies. The statistics are well documented. As McKinsey & Company summarize in their report *The Business of Empowering Women*, “Girls make up 60 percent of the world’s children not in school; at least two thirds of illiterate adults in the world are women; women account for 60 percent of the working poor earning less than US\$1 a day; and women are more likely than men to work in the lowest paid informal or non-standard wage employment.”¹⁰⁹

Despite the enormous constraints that they face, women make a crucial contribution to household earnings, formal and informal economic enterprises, agricultural production, education and health, community prosperity and to peace-building and conflict prevention. A small, but growing number are playing a leadership role at the level of national and global agenda setting. This contribution must be dramatically increased. The need to empower women, from achieving gender equality in education, health and nutrition to ensuring that they have equal legal rights and opportunities as adults, is a fundamental requirement for development and poverty alleviation.

An important component of this is strengthening women’s economic capacity as producers, employees, consumers, investors and entrepreneurs. As outlined in *The Business of Empowering Women*, the required action to achieve this falls into three main categories:

- ***Enabling women to develop marketable skills:*** This includes safe and affordable access to primary, as well as secondary and tertiary education; ability to acquire vocational, technical and/or entrepreneurial skills; opportunities to develop life, financial literacy, family, and household management skills.
- ***Helping women to find and retain employment:*** This includes access to employment opportunities free from discrimination, harassment and violence; access to capital, credit and other resources required to start enterprises; ability to travel to and from work safely; access to quality childcare; and support for career and leadership development.
- ***Supporting women in obtaining equal legal, social and economic rights and achieving leadership positions:*** This includes equal rights in areas such as property and land ownership and inheritance; ability to manage and control income; and opportunities to advance within organizations and play a leadership role.¹¹⁰

Companies have a vital role to play in integrating women more effectively into economic decision-making structures and in helping to create livelihood and entrepreneurship opportunities. This includes engaging women as formal sector employees and producers in core business operations and value chains through internal diversity programs and business linkages with women-owned enterprises. It also includes investing in and providing business development services to women entrepreneurs, providing philanthropic support to girls’ and women’s empowerment initiatives and advocating publicly for women’s rights. Some companies and industry sectors have longstanding programs in the above areas and a clearly stated business interest in empowering women. For most, the issue of equal economic opportunity remains a challenge in both developed and developing countries. It is also a major untapped opportunity. Box 23 offers some examples.

Box 23: Core business and philanthropic initiatives to empower women entrepreneurs

The Calvert Women's Principles – In 2004, the Calvert Group and the United Nations Development Fund for Women (UNIFEM) launched the Calvert Women's Principles (CWP). This was the first global code of conduct focused exclusively on empowering, advancing and investing in women worldwide, with relevance for both developed and developing economies. While aimed at corporations, the seven core components of the CWP provide a useful framework for practical implementation and dialogue by policymakers and non-governmental organizations as well as companies. They cover the following areas: employment and compensation; work-life balance and career development; health, safety and freedom from violence; management and governance; business, supply chain and marketing practices; civic and community engagement; and transparency and accountability. Since their launch, they have been adopted by a number of companies and efforts are underway in partnership with UNIFEM, the UN Global Compact and others to scale their reach and impact in developing countries.

Exxon Mobil – The Exxon Mobil Women's Economic Opportunity initiative is working to decrease barriers to women's economic participation – largely through the support of entrepreneurship. The program is operating country level projects in Angola, Chad, Colombia, Egypt, Equatorial Guinea, Indonesia, Kazakhstan, Malaysia, Nigeria, Qatar and Thailand – all countries where Exxon Mobil has a local presence and stake in the community. The Initiative also supports leadership and skills development programs for women in more than 60 countries. In particular, Exxon has partnered with Vital Voices in Africa to train women, enabling them to launch marketable products for sale, as well as building and supporting a network of businesswomen's organizations in Africa.

WIPHOLD – Founded in South Africa in 1994 by four successful business women, Women's Investment Portfolio Holdings (WIPHOLD) is an investment and operating group, listed on the Johannesburg stock exchange and owned by women. It is dedicated to the direct economic empowerment of black women through its ownership and governance structure, its core business operations and investments and its social development programs. The group acquires strategic or controlling stakes in companies that operate primarily in the financial, resources and infrastructure sectors. WIPHOLD has a clear strategy to align its social development programs to the company's core business, supporting projects that directly empower women to create wealth and livelihoods. One example is Project Imbizo, which WIPHOLD spearheaded in cooperation with the Old Mutual Group, to deliver a variety of financial and business development services to low-income women in rural and urban communities.

Standard Chartered – Standard Chartered bank has developed a number of new products and services specifically targeted at female customers and entrepreneurs in Asia and Africa. These include all-women branches in countries such as India and Pakistan, joint savings clubs and dedicated accounts for women in a number of African countries through its Diva Club, and small business loans and financial training for women entrepreneurs. The bank has also pledged to provide \$500 million to microfinance institutions by 2011, and estimates that 80 percent of the end users of these products will be women. It has become a member of the Global Banking Alliance for Women and has hosted a 'Women in Business Summit'. In 2010, the bank launched its Women in Business online resource, to provide female customers and entrepreneurs with basic financial literacy and business acumen.

Unilever – In 2000, Hindustan Lever launched Project Shakti in partnership with NGOs, local banks and government. The program supports women to set up small and micro enterprises as direct-to-customer distributors or retailers for the company's products. It provides them with training in sales and business management and helps to facilitate access to microcredit. The project enables the women to increase their incomes and skills, typically doubling household income, while helping the company to reach millions of consumers in small remote villages – to date it has doubled its direct rural reach. By the end of 2009 there were more than 45,000 Shakti entrepreneurs in some 100,000 villages in India. The company has similar initiatives to support women entrepreneurs in Bangladesh, Vietnam, Sri Lanka and the Philippines.

Microsoft – Microsoft is supporting female entrepreneurs through its Women in Technology program. Throughout the Middle East and North Africa, in partnership with the U.S. Department of State's Middle East Partnership Initiative and Institute for International Education, Microsoft is building the capacity of women entrepreneurs by developing IT skills and business acumen. Now in nine countries, Women in Technology delivers training to individual women, establishes business networks among women entrepreneurs, and builds the capacity of 60 local women organizations for sustainable workforce training solutions. Participants are trained on entrepreneurial principles, ICT skills, and professional development skills. By 2010, Microsoft estimates that the program will have trained more than 10,000 women.

Box 23: Corporate partnerships to invest in women entrepreneurs continued

Goldman Sachs – Launched in 2008 the Goldman Sachs 10,000 Women Initiative aims to expand “entrepreneurial talent and the managerial pool of women in developing and emerging economies.” The program partners with over 60 universities and development organizations that are delivering business and management education to women. It is also strengthening the quality and capacity of business schools in developing nations, supporting mentoring and networking channels for women, and partnering with research and women’s development organizations to improve the quality of data available on women entrepreneurs and businesses. Goldman Sachs employees have also been encouraged to get engaged in the initiative. The program is active in over 15 countries from Afghanistan and Rwanda to Brazil, China, India and the United States.

Walmart – In March 2010, the Walmart Foundation made a commitment to support the Vital Voices Latin America and Caribbean Women’s Business Network through a combination of financial donations and employee engagement. Vital Voices Partnership is one of the world’s leading NGOs committed to the economic, social and political empowerment of women and promotion of their human rights. Walmart and Vital Voices aim to support thousands of emerging women entrepreneurs and small business owners through a combination of leadership training, mentoring, networking and information on how to access finance and technology. An estimated 3,000 women in Latin America and the Caribbean are expected to benefit from the program in the first year.

Coca-Cola – In September 2010, the Coca-Cola Company announced 5 BY 20, a 10-year global initiative to empower 5 million women entrepreneurs. This initiative aims to help women who already own or operate businesses in the Coca-Cola system break down barriers to growth and to support more women entrepreneurs to enter the system. In the company’s Micro Distribution Centers (MDCs) in Africa, for example, women entrepreneurs comprise over 30 percent of the MDC owners in a number of countries. Through 5 BY 20, the company will partner with other organizations to provide training, access to finance and links to networks of peers and mentors. The Coca-Cola Company will spend a year in dialogue with its associates, civil society and governments to collaborate on program design. In late 2011, it will share the details of the initiative and scale up the pilot programs already underway within the global Coca-Cola system.

Nestlé – Women play a crucial role in agricultural production in developing countries, but often lack the land rights, skills and credit to improve their productivity and incomes. In India, Nestlé has established a Women’s Dairy Development program, which employs veterinarians and agronomists to provide female dairy farmers with advice on various production and animal healthcare issues. Farmers are also supported in growing their operations through subsidies to purchase milking machines and help in procuring loans. In Pakistan, Nestlé has partnered with UNDP to establish the Community Empowerment through Livestock Development and Credit program (CELDAC). The program provides training in basic livestock healthcare and management, milk production and extension services, and facilitates access to microfinance.

The World Bank’s Global Private Sector Leaders Forum – This forum was established in 2010 by the World Bank Group as an initiative of its Gender Action Plan, which promotes “gender equality as smart economics”. The plan is part of a growing commitment within the World Bank and the International Finance Corporation to play a proactive role in increasing women’s economic opportunity and access to decent employment, high-value agriculture, business opportunities, land, credit, technology and essential infrastructure services such as transport, water and energy. The Global Private Sector Leaders Forum has been established to serve as an adviser, ambassador and partner in achieving these goals. Participating companies and their senior executives commit to promote women’s economic empowerment in their own business operations and social investment programs. They agree to share lessons and best practices, support research to strengthen the business case for women’s economic empowerment and explore new business models and public-private partnerships to increase opportunities for women.

As of 2010, more than 20 companies and one business school participated in the group at the level of their CEOs or senior executives. They include (in alphabetical order): Accenture (USA); Belcorp (Peru); Boeing Central and Eastern Europe (Poland); Carlson (USA); Cisco Systems (USA); Ernst & Young (USA); ExxonMobil (USA); Finansbank (Turkey); Goldman Sachs (USA); Grupo Inter-Quimica (Dominican Republic); Heidrick & Struggles (USA); Hindustan Lever (India); INSEAD (France); McKinsey & Company (USA); Nike (USA); Norfund (Norway); PricewaterhouseCoopers (USA); Shalakany Law Office (Egypt); Sun Media Investment Holdings (China); Sungjoo Group (Korea and Germany); Tupperware Brands Corp (USA); and Women’s Private Equity Fund (South Africa).

Source: Company and partner materials

(iii) Investing in youth entrepreneurs

Youth constitute another crucial demographic group that offers both high-risks and high potential in terms of poverty alleviation and human security in parts of Africa, Asia and the Middle East. Youth are usually defined as aged 15-25, although the cohort is often older in developing and post-conflict countries. Over the next decade, about 1.2 billion young people will enter the global labor market – the largest entry pool in history – and the vast majority of them will be in developing economies. In parts of the Middle East and Africa over 60% of the population is under the age of 25.¹¹¹

These young people will play a crucial role in the world's ability or failure to meet the challenges of the 21st century. As the UN's High Level Panel on Youth Employment has noted, "Across the globe, they are making important contributions as innovators, entrepreneurs, productive workers, consumers, citizens and members of civil society. They are at the forefront of the information and communications technology revolution. They are artists and athletes...In short young people are an asset."¹¹²

Yet, millions of young people have their aspirations and opportunities crushed at an early age by a combination of poverty, lack of education, lack of access to economic opportunity, discrimination on the basis of religion, ethnicity or gender, and the trauma of facing armed conflicts, exploitation and abuse. Even those who are fortunate enough to receive some education often find it impossible to get jobs in the formal economy and they face particularly high obstacles to self-employment and entrepreneurship. Despite the burgeoning of micro-enterprise initiatives around the world, for example, very few of these offer targeted services to youth, whether they are necessity or opportunity entrepreneurs.

The challenge is daunting, especially in developing countries. According to the International Labor Organisation and International Youth Foundation, there are: 100 million young people who are unable to find work today and as a result of the global recession, the number of jobless youth increased by 8.5 million from 2008 to 2009 – the largest year-to-year increase in youth unemployment in at least a decade.¹¹³ There is enormous need to support market-driven approaches to job training and skills development, invest in high potential youth entrepreneurs, both social and commercial entrepreneurs, and to use information technology and multi-sector partnerships to scale effective youth employment and enterprise programs.

The challenge of youth economic empowerment is finally gaining the attention it deserves from policy makers, business executives and civic leaders. The World Bank's *World Development Report 2007*, for example, focused on this important subject for the first time in the bank's history. In the past few decades a number of innovative networks and partnerships between NGOs, companies, foundations, donor agencies and governments have been established to focus on youth enterprise, either as a dedicated approach or as part of a broader youth development framework. Some examples are briefly profiled in Box 24.

Box 24: Corporate partnerships to invest in youth entrepreneurs

The International Youth Foundation –

Founded in 1990 with support from the Kellogg Foundation, IYF operates in over 70 countries through a network of some 175 partner organizations. It supports programs with young people focused on the areas of education, employability, enterprise development, health and youth leadership and engagement. Since 1990, about 12 million young people have benefited from these programs. IYF works with a wide variety of companies, foundations, civil society organizations and intergovernmental agencies to identify and support existing youth programs that can be strengthened and 'scaled-up'. Its "Framework for Effective Programming" evaluates programs around the world for impact and effectiveness, highlighting initiatives that are working to "demonstrably improve the lives of young people."

The organization has established strategic alliances with a number of large companies and corporate foundations to support youth entrepreneurship and IT-enabled skills development. These include Nokia, Microsoft, Nike, General Electric, Samsung, Intel, Starbucks, Pearson, Alcatel-Lucent, Aramex, Johnson & Johnson, Wrigley, Cisco, Kelloggs, Deutsche Bank, Gap Inc., Coca-Cola and Caterpillar, among others.

The ImagineNations Group – ING is a global alliance of social entrepreneurs, investors, financial institutions, corporations and media working together with young people to influence public policy and to catalyze innovative and scalable programs in the areas of youth entrepreneurship. In the Middle East, for example, it is a founding partner of Silatech, a youth employment and entrepreneurship initiative that is working in several countries across the region to improve policy, data and access to capital, markets, jobs and IT-skills for young people. It has helped to establish the Youth Investment Trust of Zambia and in Indonesia, has worked with local business leaders and the World Bank to create Youth MicroBank, which will provide access to capital for youth-led enterprises. ImagineNations is also working with Mercy Corps and others, with support from the Cisco Foundation and the Global Partnership for Youth Investment (GPYI) of the World Bank, to develop the ImagineNations Network (INN). This is a global technology portal for young entrepreneurs to connect with each other to share ideas, develop business plans, obtain financing, conduct e-transactions, get/be a mentor.

Youth Business International – YBI works with a variety of partners to establish national-level programs that support youth entrepreneurship, typically for young people between the ages of 18 and 30. These programs share a common approach based on a combination of start-up funding in the form of a loan without the need for guarantees and business mentoring. In many cases the funding is provided by a both public and private funds, including from the banking sector. Local business people, who share their skills and experiences on a volunteer basis, usually provide the mentoring to the young entrepreneurs. The program also aims to share international lessons in the area of youth entrepreneurship and to influence the policy agenda. It is currently working with local partners in over 40 countries around the world. Since it was founded in 2000, Youth Business International has reached 97,000 young entrepreneurs. It helps about 7,000 a year to start new businesses and initial evaluation indicates that some 72 percent of the entrepreneurs supported are still in business after three years. YBI's goal is to support 100,000 new young entrepreneurs annually by 2020, and help to create more than 1 million new jobs

Box 24: Corporate partnerships to invest in youth entrepreneurs continued

Junior Achievement Worldwide –

For almost a century JA has focused on increasing work readiness, entrepreneurship and financial literacy, by bringing together business practitioners, educators, volunteers and students. With 33 programs for students in primary and secondary school, Junior Achievement teaches leadership, teamwork, and critical thinking skills, to facilitate transitions from school to the business world. Third parties undertake independent evaluations of the impact of JA's initiatives. In 2008, over 300,000 Junior Achievement volunteers taught about 370,000 classes to nearly 10 million students in 123 countries. Its Middle-Eastern network, **INJAZ Al-Arab**, is on the ground in 12 countries across the Middle East and North Africa. Established in 1999 by a young woman entrepreneur Soraya Solti, INJAZ's partners include: Flip Media, WEF Arab Business Council, Young Arab Leaders, Young Presidents' Organization, Hill & Knowlton. The program's sponsors: the Skoll Foundation, Citigroup, USAID, Exxon, GE, YPO, NCB, Young Arab Leaders, Qatar Financial Center, Shell, Intel, Amwal, Alghanim Industries, bank of new york mellon, degremont suez, paltel group, Nasser Bin Khaled & Sons, HSBC, Abraaj Capital, Bin Zayed Group, Banawi Industrial Group, Schwab Foundation for Social Entrepreneurship, Middle East Partnership Initiative, and Eskadenia Software. Since its inception, INJAZ al-Arab programs have reached more than 500,000 students and engaged 10,000 volunteers.

LiveWire – Established in 1982 by Shell as an awards program to encourage entrepreneurship in the UK, LiveWire has grown into a global program supported by Royal Dutch Shell. It aims "to provide support and access to guidance to young entrepreneurs and potential entrepreneurs" between the ages of 18 and 30. LiveWire partners with local schools, businesses and NGOs to support entrepreneurs through the process of starting their own business. From assistance in building business plans to ongoing mentoring from local practitioners, LiveWire is a holistic program that works to follow entrepreneurs through the challenges and successes of starting ones business. To make content locally relevant, each LiveWire program partners with local organizations to tailor its endeavors to "its host country's own mix of opportunities, culture and situation." Since its creation, LiveWire has supported more than 1 million young people to start their own business. It is operational in 23 countries, and has facilitated the creation of more than 2800 enterprises and some 9,000 new jobs globally. One of LiveWire's participants in Oman has started a training institute (Etihad Training Institute) to help other Omanis develop skills, showing how the economic empowerment of one entrepreneurial person can impact dozens of others in a local community.

HP LIFE – The HP Learning Initiative for Entrepreneurs (LIFE) is a key pillar of the company's Social Innovation program, which aims to leverage corporate skills, technology and grants to support education, entrepreneurship and innovation. HP LIFE is a global training program that helps students, recent graduates, young entrepreneurs and social innovators to develop essential IT and business skills. The company partners with more than 200 organizations in over 45 countries in Asia, Africa, Europe, the Middle East and the Americas to implement the program. Key partners include the Education Development Center, the Micro-Enterprise Acceleration Institute, ORT and the United Nations Industrial Development Organization (UNIDO). The goal is to reach more than 500,000 people by the end of 2010.

The Mastercard Foundation –

Established as an independent, private foundation with over US\$3 billion in assets at the time of Mastercard's initial public offering in 2006, the goal of the Mastercard Foundation is to "enable people living in poverty to improve their lives – and the lives of their families and communities – by expanding their access to microfinance and education." One of the foundation's major areas of focus is youth entrepreneurs and helping young people to make the transition to adulthood and decent livelihoods. The foundation works in partnership with more than 20 microfinance intermediaries and NGOs to enable youth to access microfinance, combined with access to technology, mentoring, training, life skills and other education.

II. 'HIGH-IMPACT' ENTREPRENEURS

2. Scaling the impact of social entrepreneurs

The emergence of the field of social entrepreneurship over the past two decades has been an important driver of new market-based approaches to poverty alleviation. A 2008 report by Duke University states: “New concepts are introduced all the time. Some never catch on. Others experience great popularity for a period, but then decline and are viewed as passing fads. A few concepts have staying power and sustained impact. In rare cases, a new concept serves as a foundation for a whole new field of practice and knowledge. Social entrepreneurship has the potential to be one of those rare field-creating concepts.”¹¹⁴

The concept of social entrepreneurship was initially popularized by the pioneering work of Bill Drayton, founder of Ashoka. He and others were inspired by the growing evidence of entrepreneurial individuals who were spearheading viable and scalable solutions to social and environmental challenges. The Skoll, Schwab, Lemelson and Omidyar Foundations, among others, have also played an essential role in promoting the concept and practice of social entrepreneurship by identifying, funding and networking social entrepreneurs and supporting other field-building activities. Between them, these organizations have helped to support and scale the impact of several thousand social entrepreneurs around the world.

Professor Gregory Dees of Duke University observes in his paper, *The Meaning of Social Entrepreneurship*, “We have always had social entrepreneurs even if we did not call them that. They originally built many of the great institutions we now take for granted. However, the new name is important in that it implies a blurring of sector boundaries. In addition to innovative for-profit ventures, social entrepreneurship can include social purpose business ventures, such as for-profit community development banks, and hybrid organizations mixing not-for-profit and for-profit elements, such as homeless shelters that start businesses to train and employ their residents. The new language helps to broaden the playing field. Social entrepreneurs look for the most effective methods of serving their social missions.”¹¹⁵ The diagram below summarizes some of these modalities of operation.



Source: Abdou, Ehaab et al, *Social Entrepreneurship In The Middle East*, Brookings, 2010 (adapted from Schwab Foundation).

Notwithstanding the challenges of measuring social impact, it is fair to say that the work of social entrepreneurs has improved the lives of millions of people. A number of them are profiled throughout this report. They are playing vital roles in poverty alleviation in one or more of the following ways:

- ***Development and delivery of essential products and services:*** Directly delivering products and services to the poor as producers and consumers in ways that are more affordable, reliable and/or accessible than was previously possible. Many social entrepreneurs are working in the areas of health, education, financial services, energy, housing, and water and sanitation.
- ***Value chain intermediation:*** Making value chains and market-based solutions to poverty alleviation work more effectively by serving as market-aggregators and market-makers and/or providing financial services, technical assistance, and information to local enterprises, cooperatives and networks that are directly reaching the poor. Some social enterprises also offer networking opportunities and matchmaking services.
- ***Systems change:*** Driving broader system-wide transformation in tackling a particular challenge and/or changing the enabling environment for addressing that challenge. Research by Ashoka shows that within five years of launching their enterprise or being elected as a fellow, some 76 percent of Ashoka Fellows have changed the pattern in their field on a national basis. They have changed systems in the following ways: through market dynamics and value chains; through business social congruence; through changes in public policy and industry norms; or through promoting a culture of changemaking and entrepreneurship.¹¹⁶

In many of these cases, market-based solutions and market forces have been central to the entrepreneur's success. Some of the ways in which social enterprises are scaling their impact include:

- Organic growth of the social enterprise, though there will likely be a limit to the rate of growth and the scale realizable;
- Mutually agreed replication or competitive copying of their business models and approaches;
- Buy-outs by larger entities, including corporations (which could stimulate broader competitive copying and industry influence);
- Governments adopting the social entrepreneur's idea into public policy; or
- Via a burgeoning variety of collaborative models and platforms with other social enterprises, business partners and/or other development actors such as governments, donors and foundations.

Box 25 provides two 'scaling models' that offer useful frameworks for thinking about the interventions and support needed to scale either the size or reach of social enterprises. Research on the pathways to scale of social entrepreneurs has shown that the 'scaling' process requires a combination of both individual organizational capabilities and alliances with other actors in what both Volans Ventures and Duke University term the 'external ecosystem'. Therefore, any efforts to scale the impact of social entrepreneurs as a key modality for tackling poverty need to consider both their individual capacities and growth and the broader system that nurtures them, in much the same way that more commercially-driven entrepreneurs are supported and scaled. In short, for social entrepreneurs, scaling happens through many of the same dynamic processes of competition and collaboration that drive the growth of commercial entrepreneurs.

Box 25: From start-up to scale-up: Pathways to greater social impact

Volans Ventures has developed the following 5-Stage 'Pathways to Scale' model, illustrating how social entrepreneurs, companies, investors and governments both collaborate and compete to scale innovative solutions to social and environmental challenges:

- **Eureka!** – Opportunity is revealed via the growing dysfunctions of the existing order
- **Experiment** – Innovators and entrepreneurs begin to experiment during a period of trial and error
- **Enterprise** – Investors and managers build new business models, creating new forms of value
- **Ecosystem** – Critical mass is achieved through alliances and imitation
- **Economy** – The economic system flips to a more sustainable state driving market, institutional and/or policy transformation.

Paul Bloom and Aaron Chatterji of Duke University have developed another model that posits seven drivers – or organizational capabilities – SCALERS – that can stimulate scaling by a social entrepreneurial organization.

They are as follows:

- **Staffing** – The effectiveness of the organization at filling its labor needs, including its managerial posts, with people who have the requisite skills for the needed positions, whether they be paid staff or volunteers.
- **Communicating** – The effectiveness with which the organization is able to persuade key stakeholders that its change strategy is worth adopting and/or supporting.
- **Alliance-Building** – The effectiveness with which the organization has forged partnerships, coalitions, joint ventures, and other linkage to bring about desired social changes.
- **Lobbying** – The effectiveness with which the organization is able to advocate for government actions that work in its favor.

- **Earnings-Generation** – The effectiveness with which the organization generates a stream of revenue that exceeds its expenses.
- **Replicating** – The effectiveness with which the organization can reproduce the programs and initiatives that it has originated.
- **Stimulating Market Forces** – The effectiveness with which the organization can create incentives that encourages people or institutions to pursue private interests while also serving the public good.

Sources: *The Phoenix Economy: 50 Pioneers in the Business of Social Innovation*. Volans Ventures Ltd., 2009
Bloom, Paul.N and Chatterji, Aaron, K. *Scaling Social Entrepreneurial Impact: Working Draft*. Duke University, 2009.

Box 26 provides three examples of well-known social enterprises that are also playing a central role in identifying and scaling the work of other social entrepreneurs; Ashoka, PATH and TechnoServe. Other examples of 'intermediary' social enterprises that are profiled in this report and are achieving scale in areas such as financing small and growing businesses and/or strengthening essential value chains in areas such as food, energy, health and nutrition include: Grameen, the Acumen Fund, Root Capital, Endeavor, VillageReach, and Transfair.

Box 26: Social entrepreneurs taking development impact to scale

Ashoka Innovations in Agriculture Initiative

Ashoka, one of the world's leading social entrepreneur intermediaries has identified and supported over 2,000 social entrepreneurs in more than 60 countries and across numerous sectors. Ashoka does not fund projects but rather bets on people with innovative ideas that are "system-changing." Their people-centric approach is reflected in their rigorous globe scanning approach to seek out the most promising new ideas and people behind them, and in the complementary processes that Ashoka calls "Venture/Fellowship", the open innovation web-based competitions (such as the Changemakers Competition) and social entrepreneur community dialogues/engagement. Since its inception Ashoka has demonstrated that a small and direct investment in the most promising individuals can seed and enhance powerful and transformational ideas and can directly influence hundreds of thousands of individuals working in international development.

In 2008, the Bill & Melinda Gates Foundation made a five-year grant to Ashoka. The grant enables Ashoka to identify and support outstanding social entrepreneurs in the field of agriculture. The goal of the Ashoka Innovations in Agricultural Initiative is to achieve an entrepreneurial revolution in smallholder agriculture and non-farm economic development in Africa and India by identifying and supporting social "Changemakers" (social entrepreneurs) who innovate within the agricultural development sector.

Africa and India need a new generation of agricultural leaders to ensure that the potential of new technologies and approaches have the desired impact on small farmers and their communities –

Ashoka's approach is an important and useful one in identifying, supporting and accelerating the impact of such potential leaders. Ashoka is now rigorously screening social entrepreneurs and identifying 100 new Ashoka Fellows whose ideas and action will catalyze sustainable systems change in agriculture. Ashoka will support these Fellows financially and technically so they can each have an impact on an average of 5,000 -10,000 small holder farmers. Ashoka will also stimulate collaboration among the entrepreneurs through regional meetings, workshops, and joint projects, and will work to capture and spread the most successful innovations.

One such agricultural fellow already within the Ashoka network is Pranjal Baruah. He has developed the market for mushrooms in Assam – working to stimulate demand for mushrooms, creating a brand name and mushroom products that are sought after, and simultaneously encouraging small farmers to adopt mushroom cultivation. His venture has grown over 1,000 percent in just eight years. Additionally, by using federated schemes, land-to-lab strategies and training and support for "mushroom entrepreneurs", Pranjal has reduced farmer exploitation and created new livelihood opportunities for thousands of unemployed youth and landless families in Assam.

Box 26: Social entrepreneurs taking development impact to scale continued

PATH – A Catalyst for Global Health

PATH is an international nonprofit organization that creates sustainable, culturally relevant solutions, enabling communities worldwide to break longstanding cycles of poor health. Headquartered in Seattle, Washington, PATH now has more than 800 staff members, offices in 28 cities in 19 countries, and program activities in more than 70 countries. PATH collaborates with diverse public- and private-sector partners to develop and provide appropriate health technologies and strategies that improve global health and well-being. PATH improves the health of people around the world by: supporting new ideas through inception, development, and testing; paving the way for introduction in low-resource countries; and working with governments and communities to integrate and expand the most successful ideas.

PATH was formed in the mid-1970s by three researchers – Gordon Duncan, Rich Mahoney, and Gordon Perkin – to bridge between public health researchers, who were developing products, field staff who were working with communities on the ground, and private industry, who seemed to have been left out of the equation altogether. PATH's initial focus was on making sure couples around the world had access to condoms, birth control pills, intrauterine devices, and other modern forms of pregnancy prevention. However, the success of this initial design set PATH up to become an extraordinary intermediary institution able to catalyze, introduce and integrate a broad array of health innovations into global health systems.

PATH has many innovators within it that are responsible for product innovations and patents, and can rightfully be considered a social entrepreneur in its own

right. However, PATH's multidisciplinary approach puts it firmly into the category of intermediary institutions that catalyze systems change. This is evidenced by PATH's approach, which is premised on bringing cutting edge technology to historically neglected challenges, bringing together people and organizations with the necessary skills and expertise to collaborate and jointly problem solve, working in partnership with organizations across the public and private sectors necessary to strengthen critical health value chains, and consulting with the individuals and communities it seeks to help so that solutions are appropriate and acceptable.

In addition to projects and private sector partnerships focused on developing and introducing particular health products, PATH has also implemented projects across the health value chain and sought to make broader industries more inclusive. For example, in 2006 PATH began working to expand the market for household water treatment to low income consumers. The project objectives are to: (1) develop sustainable market strategies for commercial provision of HWTS products to underserved populations in a variety of low-resource settings; (2) stimulate and expand a commercial market for HWTS water treatment in one country; and (3) assess the effectiveness, sustainability and scalability of a commercial market for HWTS provision, and to define operational plans for market development, product introduction, and replication in other countries by a variety of actors. These are clearly market development and building functions that will require extensive collaboration and partnership to ensure success and sustainability of our work. Project partners include: commercial partners to refine product design, manufacturing, distribution, and promotion; research institutions to gain knowledge on

safe water needs of low-income households, test products, and measure the project's impact; other nonprofit and nongovernmental organizations to collaborate and build on a history of safe water initiatives and to share information derived from this project; and governments and policymakers to ensure that solutions are useful and sustainable in their constituent communities. Together with these partners PATH will develop the tools, guidelines and performance standards that will enable others to replicate the work in other countries and contexts. As a result, PATH is working as a disruptive innovator, a field builder, a partnership and collaboration broker, a market maker, and supporting knowledge management efforts to lift many actors within the household water market. Some of the consumer research, technology platforms, and distribution strategies that PATH is developing in partnership with others, could prove transformative for the household water treatment market and may have lessons for other inclusive market development efforts.

Box 26: Scaling business solutions to poverty

TechnoServe was established in 1968 by an American businessman to provide technology to the rural poor in developing countries to improve their productivity. Over the past decade it has evolved into a market-driven, business-oriented social enterprise that focuses on helping entrepreneurial men and women in rural areas of some 30 developing countries to build small and growing businesses that create economic opportunity to improve livelihoods and help transform the lives of their families and communities. It is working with a variety of corporations, development agencies, private foundations, NGOs and government bodies to empower thousands of smallholder farmers and rural entrepreneurs along agricultural value chains in Latin America, Africa and India. In 2009, the organization reports that it worked with more than 2,140 businesses to create jobs, income and new opportunity for nearly 1.4 million people. It estimates that these businesses earned US\$189 million in revenues and US\$27 million in profits. They employed 53,900 employees paying US\$20 million in wages and purchased about US\$62 million worth of products from over 200,000 small-scale suppliers.

TechnoServe focuses on identifying and working with rural entrepreneurs who have the potential to raise productivity, employ the latest relevant technology, produce high-value products for local or export markets, integrate into corporate value chains and significantly raise jobs and incomes in a manner that has a positive impact on poverty. At the heart of its strategy is a commitment to inclusive markets and pro-poor growth. The organization employs staff with business, consulting and agricultural expertise, some 90 percent of whom are citizens of the countries in which it works. They work in partnership with companies and other groups to leverage resources and

capabilities and achieve greater scale and impact. In addition to its use of partnerships, three other characteristics of the TechnoServe model that help it to scale its impact are its focus on developing entrepreneurs who also have the ability to be local leaders and role models in their communities and industries; its strategy of building both individual entrepreneurs as well as the value chains or industries in which they are operating; and its commitment to supporting broader field-building activities within the countries where it operates and globally.

Developing entrepreneurs and leaders

TechnoServe implements entrepreneurship development and training programs to help entrepreneurial men and women to either establish, strengthen or expand businesses – mostly small and medium-sized enterprises with the potential to grow – while aiming to foster a broader culture of entrepreneurship in the locations where it works. It runs national business plan competitions in 14 countries, working with local partners from the business, financial, academic and government sectors who help to identify, advise and screen applicants and then mentor and facilitate access to capital for those with the most potential. Local trainers and business mentors help entrepreneurs to identify unmet market demand, uncover high-value products and business opportunities and produce to the quality and standards necessary to serve customer needs, using the Internet and sophisticated marketing research and technologies where possible.

Efforts are also made to strengthen the leadership skills of the entrepreneurs so that they can engage proactively and constructively in public policy dialogues, serve as a voice for local business and take a lead on issues of corporate responsibility.

Building businesses and industries

In addition to working with individual entrepreneurs and helping them to build their own businesses, TechnoServe also helps them to organize through producer groups and industry associations to have greater economic impact and political voice. Increasingly the organization is taking a value chain or cluster approach that aims to build or strengthen an entire value chain or industry in specific locations. It undertakes market and industry research, value chain analysis and strategic planning, working with producer associations and industry groups, large corporations, governments and both public and private donors to achieve scale. In certain cases it supports local industry groups to engage in public policy dialogue and advocacy to influence the broader enabling environment.

Supporting field-building activities

TechnoServe is also working to scale its impact by supporting broader field-building efforts for small and growing businesses and agricultural value chains. It has been active in the creation of the Aspen Network of Development Entrepreneurs (ANDE) and in efforts by a number of public and private donors to develop more integrated value chain approaches to increasing smallholder farmer productivity and incomes in developing countries.

TechnoServe is active in a variety of agri-business projects, ranging from staple crops to export food commodities such as cashews, cocoa, coffee, cotton, dairy, horticulture and fruit, livestock and feed, and tea. It uses a robust evaluation system and is starting to replicate successful programs in different countries and engage with new industries.

As outlined in the section on large corporations, there is untapped potential for greater alliances between social enterprises and large companies, both on a commercial and social investment basis. The social businesses that Grameen Bank is establishing as joint ventures with large corporations are one model that offers particular potential. Grameen Danone Foods Ltd., for example, is producing an affordable, nutrient fortified yoghurt in Bangladesh, purchasing the milk from local farmers, creating local livelihoods in the production, and selling the products door-to-door through a sales force of women micro-entrepreneurs. In another joint venture Grameen is working with French environmental services company Veolia to build and operate several water treatment plants in some of the poorest villages in Bangladesh. Pfizer and BASF are two other multinational corporations that are developing joint ventures with Grameen in the area of healthcare delivery. In all cases, the goal is to combine social mission with market forces to achieve greater scale and more sustained impact than would be possible through a traditional donor or philanthropic model.

The concept and practice of social entrepreneurship are still evolving and much debate remains around definitions and measures of performance. This is especially the case with respect to the distinction between commercial entrepreneurship and social entrepreneurship, given that the boundaries between the two are often blurred. On the one hand, a growing number of commercial entrepreneurs are now measuring, managing and enhancing their broader social and environmental contributions in the course of pursuing financial value creation. On the other hand, a growing number of social entrepreneurs are developing market-based and sometimes for-profit business models to pursue their explicit goals of social and environmental change.

Regardless of motivations and models, the new approaches to development that are being driven by social entrepreneurs have potential. The financial, technical and managerial resources that they are mobilizing to solve development challenges – increasingly in partnership with more traditional foundations, public donors, governments and large corporations – offer an exciting area of innovation for poverty alleviation. Public and private funders of social entrepreneurs would be wise to think about how effectively and efficiently they are allocating capital to these entrepreneurs. They should also look for opportunities to support and scale social entrepreneurs who are based in developing countries and to explore how market-based solutions can be better aligned with social missions.

As John Elkington and Pamela Hartigan observe in their 2008 book *The Power of Unreasonable People*:

“...periods of great change are built on intense experimentation and, often, high failure rates. Our reading of the evidence suggests that the work of these innovators and entrepreneurs heralds a new phase in the evolution of business, markets and capitalism itself. The mainstream players who heed the lessons from these innovators’ experiences will find new opportunities to fulfill unmet needs in the vast underserved markets of the twenty-first century.

Think of it this way: whatever they may intend, these entrepreneurs are doing early

market research on some of the biggest opportunities of the coming decades. In attempting to bridge the great divides between privileged populations and the poor, they address the critical challenges where traditional markets fail. But, as we shall see, they cannot tackle market failures on their own. Instead, their efforts need to be supported by all levels of government, by business, by the financial markets, and by civil society organizations and ordinary citizens – that is, by each and every one of us.”¹¹⁷

II. 'HIGH-IMPACT' ENTREPRENEURS

3. Empowering social intrapreneurs

Most of the literature on entrepreneurship focuses on entrepreneurs who start and/or lead their own commercial or social enterprises. Yet, individuals and small teams working within large companies or development institutions can also play a vitally important entrepreneurial role. The previous section on large corporations highlighted the opportunities for companies to innovate in order to directly serve the poor. Where corporations have done this effectively there have often been internal leaders who have catalyzed, developed and/or scaled these innovative new approaches and technologies to explicitly deliver market-based solutions to poverty.

As *The Economist* argued in its review of Elkington and Hartigan's book on social entrepreneurs, "The greatest agents for sustainable change are unlikely to be [social entrepreneurs], interesting though they are. ... They are much more likely to be the entirely reasonable people, often working for large companies, who see ways to create better products or reach new markets, and have the resources to do so."¹¹⁸ It is likely that both sets of people will play a crucial role in driving social and environmental change. Yet, there is no doubt that entrepreneurial individuals and teams working within larger organizations and networks have a potentially important and to-date untapped role to play.

The term 'intrapreneur' was coined by Professor Gifford Pinchot in the mid-1980s and in 1987 entered the American Heritage Dictionary with the following definition, "A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation."¹¹⁹

Pinchot later commented, "I've made an interesting discovery since I wrote *Intrapreneuring*. I used to think potential intrapreneurs were commonplace that they were hard to find because they were in hiding. But I have found they are more rare in most large organizations than the 10 percent who are entrepreneurial in the population at large. There is a scarcity of people who are brave enough to take on the intrapreneurial role: therefore, we have to lower the barriers and increase the rewards."¹²⁰

There is a vast literature related to how large companies and other institutions support intrapreneurs and innovation generally. Much less research has been done on effective models to identify, support and scale the contribution of social intrapreneurs who are trying to find viable solutions, either commercial or hybrid models, to tackle global poverty and to include the poor more effectively in corporate value chains as producers, consumers and employees.

In 2008, SustainAbility, IDEO and the Skoll Foundation, with support from Allianz, published "*The Social Intrapreneur: A Field Guide for Corporate Changemakers*", which offers one of the best summaries of to-date of the potential of this group of entrepreneurial individuals, who it describes as people who are effective at:

"creating and delivering new business models. They compel their host corporations to look outside their comfort zones – to see both the strategic risks and profound opportunities that exist beyond the purview of traditional business units. They are not satisfied with suboptimal equilibriums, where markets work well for some, but not at all

for others. Their adept opposable minds exist to juggle dilemmas and catalyze new visions, products, services and solutions – some of which may fall below the radar today, but will eventually enable a scale of change that delivers value to society and business well into the future,” and, “they work inside major corporations or organizations to develop and promote practical solutions to social or environmental challenges where progress is currently stalled by market failures.”¹²¹

These individuals are in essence what Bill Gates has termed ‘creative capitalists’ – using the principles, the architecture and the organizations of modern capitalism and the immense resources, networks and incentives that it is able to mobilize to solve the big global challenges of our time.¹²²

There is untapped potential to support social intrapreneurs, both from within the organizations where they operate and through building peer networks and communities of practice beyond individual organizations. There is also an opportunity to allocate greater resources to training the next generation of social intrapreneurs and social entrepreneurs in universities and business schools, some examples of which are profiled in Part Three.

(i) Empowering intrapreneurs within their own companies

Companies can support social intrapreneurs within their own businesses in the following ways to help scale market-based solutions to poverty alleviation or environmental sustainability:

- **Identify individuals and institutionalize social innovation:** In addition to identifying, supporting and celebrating individual social innovators and risk-takers, companies can also create institutional structures, incentives, reward and recognition programs, and in many cases dedicated financial and technical assistance to support the work of social intrapreneurs.
- **Lead through senior champions:** There is almost always active and publicly articulated senior-level support, often at the level of the chief executive or chairman, with senior business unit leaders often serving as sponsors of successful social intrapreneurs.
- **Establish teams of innovators:** The majority of effective social intrapreneurs work in teams – sometimes in a dedicated unit and sometimes in a network across the company.
- **Innovate through employee volunteering programs:** Some companies are using more sophisticated and competence-led approaches to employee engagement and volunteering to build a cadre of future business leaders who are also social intrapreneurs. Examples of some leading initiatives in this area were profiled in the section on corporate philanthropy and volunteering.
- **Establish awards and incentive funds:** Some companies are encouraging social intrapreneurship and eco-innovation through annual awards or the creation of social venture funds and challenge initiatives within the mainstream business.

Examples of five of these approaches are illustrated in Box 27. There is potential for all companies to develop similar tools and structures to support social intrapreneurs and to incubate and scale new approaches to tackling global challenges and poverty alleviation.

Box 27: Corporate structures and tools to empower social intrapreneurs

A global award program: DuPont Sustainable Growth Excellence Award

This award was founded in 2004 to recognize and empower DuPont employees who have “created shareholder and societal value while reducing the environmental footprint along our value chains.” Representatives from stakeholder groups, including employees, customers, suppliers, and broader society review applications and determine winners. In 2007, the 13 winners accounted for energy savings and reduction of greenhouse gas emissions equivalent to removing over 276,000 vehicles from the road. They also “reduced water use by over 800 million gallons per year... representing cost savings of over 35 million USD per year and expected new revenues of US\$ 41million in the next few years.” The Sustainable Growth Excellence Award includes a \$5000 grant, and “seeks to honor those teams and individuals who have made significant contributions toward DuPont meeting it’s mission and vision.” The company has honored 49 teams thus far (with usually about 12 winners annually).

A start-up venture unit: ReutersMarket Light

In 2006, Thomson Reuters set up Reuters Market Light (RML) as a commercially viable business unit targeted to provide timely and affordable information to farmers, initially in India, on crop prices, weather, sources of finance, government schemes and so on. The idea was inspired by a Reuters employee and its implementation spearheaded by social intrapreneur Amit Mehra, with support from the company’s CEO. The initiative was based on 18 months of market research, concept tests, prototyping and market trials, by the Reuters team. To make it viable as a start-up RML was incubated by the company’s main Venture Board, chaired by its CEO. Now in operation RML has its own governance structure, personnel policies and salary scale, while still benefiting from access to the world class technology and resources of Thomson Reuters. The service provided to farmers is available on a subscription basis and is accessible on all the mobile networks in different funding packages. It currently covers information on over 150 crop types and nearly 1,000 markets across India and in less than three years has reached an estimated 2 million farmers.

An internal sustainability challenge fund: Dow Chemical’s Global Challenges Initiative

The company has made a public commitment that “By 2015, Dow will achieve at least three breakthroughs that will significantly improve the world’s ability to solve the challenges of: affordable and adequate food supply; decent housing; energy & climate change; sustainable water supplies; or improved personal health and safety.” Breakthrough technologies include new, unique chemistry; a significant new manufacturing process for existing products; or new business models and methods of delivery for existing products. The “challenge platforms” were chosen because of their connection to macro market trends and existing Dow capabilities which increased the likelihood for developing successful new or enhanced products and technologies that can help solve these critical world challenges. In creating this goal, Dow was heavily influenced by the United Nation’s Millennium Development Goals (MDGs), which are focused on developing countries. Teams are encouraged to work across functional, geographic and business unit boundaries to develop new ideas and the company is utilizing both traditional R&D funding as well as its internal venture capital fund to support the program.

Source: Company and partner materials

Box 27: Corporate structures and tools to empower social intrapreneurs continued

A dedicated business unit: Accenture Development Partnerships

Accenture Development Partnerships has been established as a separate social business unit within Accenture to provide strategic advice, project management support, technology skills and partnership brokerage services to nongovernmental organizations, foundations and donor organizations operating in the development sector, with the aim to helping these organizations to improve their own performance and to increase their social and economic development impact. Founded by social intrapreneur Gib Bulloch, with strong senior management support, ADP's projects are staffed by managers selected from its consulting and technology practices through a competitive selection process who work in the unit for varying periods of time usually three to twelve months. The business model is based on a '3 way contribution' by the company which covers overhead costs and charges a lower margin on fees, the employees involved who take a salary cut, and a client contribution, allowing for a reduced fee structure which makes the services more accessible to nonprofit organizations. ADP also provides a mechanism for engaging Accenture's commercial clients in development initiatives, for example by helping them to partner with nonprofit organizations. Established in 2003, ADP has completed more than 200 projects spanning 54 countries with over 45 different client organizations, including a significant proportion of the leading international non-government organizations and donor agencies. Recent projects include work with Enablis, the government of Guyana, NetHope, PLAN International, UNICEF, Oxfam, and Save the Children.

A company-wide social innovation network: Tetra Pak's Food for Development Office

This market-oriented network was established in 2001, in partnership with sister company DaLaval, to serve as a catalyst, provide technical assistance and funding, and leverage partnerships along the dairy and milk value chain. It consists of a core team in the company's headquarters in Stockholm and a network of colleagues based in business units around the world. Specialists are located in Asia, the Middle East and Sub-Saharan Africa, and there are Food for Development representatives in most of Tetra Pak's market companies. The FfD Office works in partnership with a variety of external partners on a variety of projects ranging from school feeding programs, which are more philanthropic in nature, to agricultural and dairy development projects focused on making the milk value chain more inclusive, sustainable and nutritious. Projects include training for smallholder farmers, equipment financing and food product development at the farm level to support for local processing plants and market development strategies. The global school milk and school feeding program has been in existence in some form for more than 45 years. In 2007, an estimated 45 million school children in over 50 countries, some 22 million in developing countries, received nutritional support. In addition to working closely with its own business units and sister company Dalaval, the Food for Development office also works with Tetra Pak's major customers who process, package and distribute food, as well development partners in government and civil society.

A targeted unit: Anglo Zimele

In South Africa, mining giant Anglo American has set up a dedicated unit for enterprise development and economic empowerment. The unit, called Anglo Zimele, is headed by a full-time Managing Director and chaired by the Executive Director of Anglo American South Africa. Zimele comprises four funds, each with a professional fund manager and staff. The oldest fund, the Supply Chain Fund, targets black-owned small and medium enterprises with potential to become Anglo American suppliers. The fund looks for firms that are already commercially viable so it can focus on generating significant future growth using a hands-on, incubator-style approach – offering loan and equity financing, training, and information about procurement opportunities with the company. The Supply Chain Fund has financed more than 150 businesses since it was established in 1989.

The Anglo Khula Mining Fund is a partnership with government focused on junior mining, supporting small, black-owned companies formed to explore mining deposits. In addition to loan and equity financing and general business skills training, the fund offers targeted technical assistance based on Anglo American's mining expertise. The Communities Fund finances entrepreneurs in the vicinity of Anglo American mines. These entrepreneurs also have access to training, coaching, and business services like printing and telecommunications through a network of 13 Small Business Hubs. The Olwazini Fund, Anglo Zimele's newest fund, targets historically disadvantaged groups like women, youth, and the disabled with entrepreneurship training and small business loans for promising graduates.

(ii) Building peer networks across companies

Beyond individual companies there are a number of initiatives underway to select and network corporate social intrapreneurs across different companies. Examples include:

- The World Business Council for Sustainable Development has convened and supported a year-long *'Future Leaders Program'* since 2002. Member companies nominate high-potential leaders in their companies who work together with their counterparts from other countries and industry sectors on a sustainability project selected by the group and aimed at, “enhancing their leadership and professional skills while gaining understanding of how to apply sustainability principles back in their own companies.”¹²³ In 2009 the Future Leaders Team focused on inclusive business models to serve the poor and developed a learning tool for companies called the *'Inclusive Business Challenge.'* The program now has an active alumni network of over 250 sustainability leaders spread through some of the world's largest and most influential corporations.
- The Aspen Institute's Business in Society program launched a *'First Movers Fellowship Program'* in 2009 aimed at identifying and supporting social intrapreneurs from major corporations. The program looks for what it describes as: “accomplished innovators recognized as high potential performers in their companies. And they have a compelling idea about a new product, service, business process or model they urgently want to implement that will help their companies develop a culture in which business success is defined in financial, social and environmental terms.”¹²⁴ Over the course of a year, the Fellows come together in four seminars built around the themes of reflection, innovation, community, and leadership, and then work with each other and with teams of mentors in their companies to develop and implement breakthrough strategies to create profitable business growth as well as positive social change.

At the same time, a growing number of universities and business schools are developing courses, internships and multi-disciplinary field projects aimed at training future leaders with a combination of both business and management skills and knowledge of key development challenges and market failures. A few of these are profiled in Section Three of the report.

As it becomes increasingly clear that market-based solutions and private sector resources will have a crucial role to play in helping to tackle key development and climate change challenges, there is a growing need for global corporations to take explicit actions to identify, support and develop a new generation of business leaders and social intrapreneurs who can develop profitable solutions to addressing some of these challenges. This calls for a combination of:

- Leadership development programs
- Internal awards and other incentives
- Internal social venture and challenge funds
- Dedicated business units
- Corporate foundations that support social innovation
- Cross-company innovation teams
- Cross-company peer networks

- Support for outstanding young managers to participate in external social innovation and sustainability networks.

The establishment of dedicated business units and/or social venture funds to incubate and support social intrapreneurs offers particular potential. Some of the most successful corporate efforts in building inclusive business models and/or tackling development challenges have been achieved through such units and through the social intrapreneurs and innovators who work in them.

In addition to the examples profiled in Box 27, other examples include Monitor Inclusive Markets in India, which in addition to research is also undertaking a variety of catalytic activities to build the low-income housing market in several major Indian cities, and the Danone Communities Fund, and Base-of-the Pyramid Unit which is profiled in the section on private financiers.

Agribusiness cooperative Land O'Lakes has one of the most established units of this kind. Its Land O'Lakes International Development division was established as a not-for-profit unit in 1981, with the goal of taking lessons from the company's core business experience and applying them to support smallholder farmers in developing countries. It has worked closely with USAID and other partners to support agricultural productivity and competitiveness projects, development of rural enterprises and farmer cooperatives, food system and safety projects, nutrition, health and food security in over 70 developing countries.

In summary, there needs to be a focus on supporting both individuals and strengthening institutional structures and social innovation ecosystems. For the companies and other organizations that take this approach, the potential is great to discover entrepreneurial new approaches, technologies, products and services to serve the poor.

III. PRIVATE FINANCIERS

The ability to participate in capital markets and gain affordable and reliable access to finance is a common foundation for almost every successful development outcome whether at the household or community level, or at the level of entire value chains and nations.

The past two decades have been characterized by dramatic changes and innovation in the field of development finance and the international capital markets more broadly. We have witnessed the emergence of new asset classes, players and financing mechanisms. There has been the creation of non-traditional public-private and social-commercial funding coalitions. And the transformational impact of the convergence between information and communications technology (ICT) and financial intermediation. These developments have facilitated nothing short of a revolution in finance from the emergence of ‘24-hour global trading’ that shifts trillions of institutional dollars around the globe daily to ‘mobile money’ services for the poor that facilitate individual access to ten dollars or less in remote rural communities.

Some of these financial innovations have led to major advances in financing for development and poverty alleviation, which have the potential to scale further and benefit more people. Diverse examples include: the microfinance movement; the Equator Principles for responsible project finance in developing countries; the International Financing Facility for Immunization; ‘vaccine bonds’; solidarity borrowing; private equity in low-income markets; and the emerging field of carbon finance. The landscape offers a kaleidoscope of new financing instruments with the potential to promote economic growth, protect the environment and alleviate poverty.

At the same time, the global financial crisis starkly demonstrated the risks and costs associated with such a complex and interdependent system. It is often the most vulnerable economic actors that suffer when financial innovation and transformation outpaces the ability of public accountability mechanisms, national regulators and international institutions to keep up with the rate and complexity of change. As the crisis has unfolded, it has often been the poorest households in each country and the poorest countries that have carried the burden of human costs.

Despite the economic and social costs of the financial crisis, there is still enormous potential and need to more effectively leverage private finance to support development and poverty alleviation. The World Bank concluded in its 2009 report, *Innovative Financing for Development*: “...it is worth reiterating that financing the Millennium Development Goals (MDGs) would require increasing the investment rate above the domestic saving rate, and the financing gap has to be bridged with additional financing from abroad. Official aid alone will not be sufficient for this purpose. The private sector has to become the engine of growth and employment generation in poor countries, and official aid efforts must catalyze innovative funding solutions for the private sector.”¹²⁵

Clearly, formal sector, profit-driven financing of projects, companies, governments, and even consumers in developing countries is nothing new. Many of the world’s major multinational banks and insurance companies have longstanding engagement in these countries. These include on-the-ground operations, including in some cases retail networks dating back more than a 100 years, and decades of experience in providing trade finance, project finance and other banking services to

developing country governments and companies. At the same time, the waves of privatization and market liberalization that followed political change in much of Central and Eastern Europe, Asia, Latin America and Africa in the 1990s, also dramatically increased the number, diversity and depth of domestic for-profit financial institutions in many transition and developing economies.

As such, private financiers have been engaged in developing countries for many years. Overall their contribution has been essential to financing economic growth and to funding both the public and private sectors in many of these countries. There is no question, however, that the record hasn't always been positive. Even prior to the global crisis there have been other devastating financial crises that have exacerbated poverty. In most cases these have been driven by some combination of government and financial sector irresponsibility and weak regulatory oversight in both developed and emerging markets. There have also been examples of financial deals at the project level – especially in the case of large-scale infrastructure projects – that have exacerbated poverty or created other negative social and environmental impacts.

Even when the impacts of private financing at the macro- or project-level have been broadly positive, the benefits have not always – some would argue rarely – ‘trickled down’ to either expand opportunity or access to financial services for the poor, or to directly improve their quality of life in other ways. As is now well-recorded, millions of people in developing countries lack any direct access at all to affordable and reliable formal sector financial services.

Leaders in the private financial sector and key international financial institutions (IFIs), such as the IFC and regional development banks, have started to actively address these challenges over the past decade. They are looking explicitly at ways to:

- Develop sustainable and scalable market-based solutions for delivering financial services directly to the poor and to invest in the microfinance intermediaries that serve them;
- Invest in small and growing businesses, especially the type of high-potential opportunity entrepreneurs profiled in the section on entrepreneurship;
- Take local corporate champions to scale, enabling them to grow both domestically in their own countries and across borders; and
- Engage in efforts to leverage additional private finance in a manner that enhances the broader contributions that for-profit financial institutions can make to poverty alleviation and to achieving the MDGs.

The following pages provide a broad overview of these four areas as pathways for mobilizing additional private finance to explicitly support poverty alleviation and development. Each of these areas has a burgeoning and increasingly sophisticated community of practice. These communities of practice are already populated by a diverse range of for-profit financial companies such as banks, institutional investors, and insurance companies, and by donors and IFIs, philanthropists, social enterprises, and nonprofit but market-based financial intermediaries. The different financial actors, instruments and markets that are evolving in each area have also been covered comprehensively in other reports. The purpose of this section is not to provide an in-depth analysis, but rather highlight some of the ways in which formal sector, market-oriented private

financiers, working alone or in partnership with other development actors, can play a vital leadership role.

Prior to looking at each of the four areas of action, it is worth saying something about the field of hybrid financing that has started to emerge over the past decade. The groundbreaking work that is occurring around the concepts of Impact Investing and Blended Value Capital, led by groups such as the Rockefeller Foundation, World Economic Forum, Monitor and IFC, and inspired by innovative financiers, is introduced in Box 28. It is being driven by a combination of socially responsible and sustainability investors, venture capitalists, asset managers, insurers, bankers, philanthropic foundations, international financial institutions, social enterprises that act as financial intermediaries, and community-based financial enterprises.

Many of the examples covered in the following section are some variation of impact investing or 'blended value' approaches aimed at mobilizing private finance to support poverty alleviation and other development goals.

The examples focus on the following four categories of direct financial service provision and intermediation, although there is some overlap and blurring of boundaries between these categories, and increasingly between the different types of financial service provider, instruments and asset classes within them:

1. Delivering microfinance services to the poor
2. Investing in small and growing businesses
3. Scaling emerging market corporate 'champions'
4. Leveraging additional private finance for poverty alleviation

BOX 28: The rise of 'Blended Value Capital' and 'Impact Investing'

"There are moments in history when the needs of an age prompt lasting, positive innovation in finance – from ideas as big as the invention of money, to the creation of new institutions such as banks and insurance firms, the development of new products and services such as mortgages, pensions and mutual funds. Evidence suggests that many thousands of people and institutions around the globe believe our era needs a new type of investing. They are already experimenting with it, and many of them continue even in the midst of a financial and credit crisis. That's why the idea of using profit-seeking investment to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions."

Investing for Social and Environmental Impact, Monitor Institute , 2009

Defining 'Blended Value Investments' and 'Impact Investing'

'Blended Value' Investments can be defined as those that explicitly include social and/or environmental factors into investment decisions. Research supported by the Rockefeller Foundation, World Economic Forum and IFC concludes: "Financial returns in blended value investments may be at risk-adjusted market rates or below market rates. These types of investments inhabit a space between philanthropy, where no financial return is expected, and pure financial investments, where social considerations are not a factor and financial profit is maximized."

The Monitor Institute, concluding a study conducted with support from the Rockefeller Foundation and others, defines 'Impact Investing' as: "Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor."

In their 2009 report Monitor Institute provides a useful framework for considering three segments of investors that are driving the impact investing movement:

- **Financial First Investors**, who aim to optimize financial returns with a floor for social or environmental impact: "These may either be commercial investors who are seeking out sub-sectors in their portfolios that offer market-rate returns while achieving some social or environmental goal (i.e. clean technology) or commercial investors responding to regulations, tax policies or voluntary guidelines and performance standards requiring them to take social and/or environmental risk or opportunity into consideration in their mainstream business."
- **Impact First Investors**, who seek to optimize social or environmental impact with a floor for financial returns: "These are investors who are primarily socially or

environmentally motivated, and are willing to give up some financial return in their investments to achieve these goals or the growing number of philanthropists, other grant-making entities or social enterprises who are seeking to harness market-mechanisms to achieve social or environmental benefits."

- **"Ying-Yang" Deals**: Those that combine capital from financial first and impact first investors working together on the same deal, and sometimes including philanthropists or public sector funding, in order to enable deals and projects that could not happen without the blending of different types of capital with different motivations and requirements in terms of performance.

These different approaches are illustrated over the page.

Types of 'Impact Investing'

In operational terms 'Impact Investing' includes a wide and growing range of investment activities and fields of practice such as: community development funds; clean technology; microfinance; financing for small and growing businesses; and global public-private financial mechanisms such as those that have emerged over the past decade in the areas of global health, the environment and infrastructure.

The size of 'Impact Investing'

As a nascent and rapidly changing field that is composed of a wide range of actors, asset classes, motivations and investment models – some who identify with the field, others who may not – it is difficult to offer a precise figure for the amount of assets that are being invested around the world with the *explicit* goal of generating both social and environmental value as well as financial return. Monitor comment: "... a good guess is that the total size of the market could be as big as US\$500 billion within the next decade." This is still very small compared to

BOX 28: The rise of 'Blended Value Capital' and 'Impact Investing' continued

the total universe of global managed assets, some US\$50 trillion, but in addition to philanthropic giving, which in the US-alone Monitor estimates to be about US\$300 billion, and global social screening and shareholder advocacy by socially responsible investment (SRI) funds, estimated at close to US\$7 trillion, the amount of funds that are explicitly aiming to achieve positive social and environmental outcomes is substantial.

The future of 'Impact Investing'

The organizations and thought-leaders that have driven the work on both 'blended value capital' and 'impact investing' agree broadly on the obstacles to scaling these investment approaches – lack of effective intermediation, lack of enabling infrastructure, lack of common performance metrics, and lack of sufficient absorptive capacity for capital. Likewise, there is general agreement on what is required to move these approaches from the margins of the financial sector to the mainstream. Proposals range from the creation of what Monitor describes as

'industry-defining' funds, to support for new types of intermediaries, to the establishment of field-building platforms and networks to work on common metrics and standards, share good practices, and pool efforts and resources.

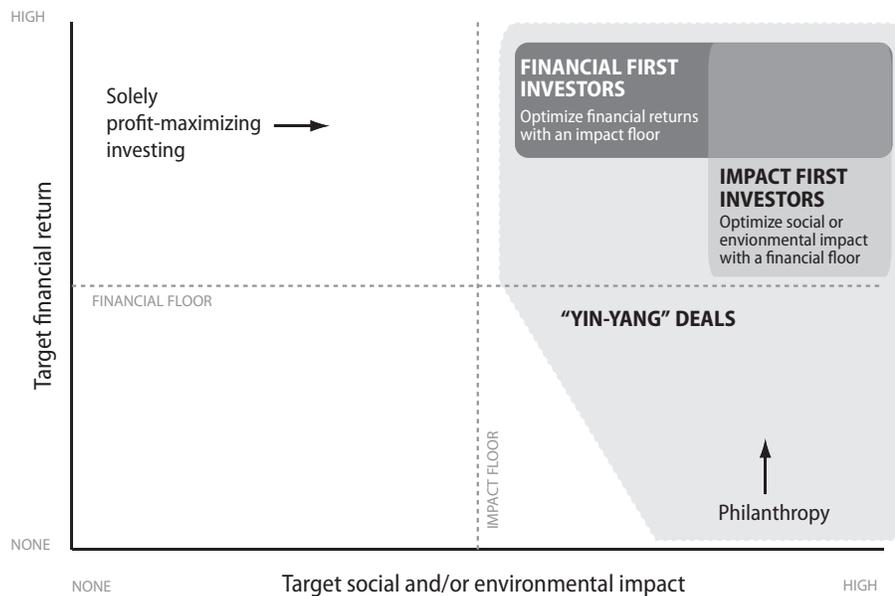
As one of the pioneers in supporting this field of endeavor, in 2009, the Rockefeller Foundation partnered with others to launch a collaborative initiative called the **Global Impact Investing Network (GIIN)**, which is playing a vital field-building role.

What about the social and environmental impact of the 'other' US\$50 trillion?

One can argue that a sizable percentage of the US\$50 trillion of globally managed assets that are not aiming *explicitly* to achieve positive social and environmental outcomes, but rather to maximize financial returns, also have substantial social and environmental impacts – both positive and negative. In the same way that remarkably few global corporations tell a compelling story about

their development footprint or the positive development multipliers that result from the activities of their regular day-to-day business, much the same can be said of the financial community.

While the financial crisis has demonstrated the very obvious negative impacts of short-term investment horizons, weak regulation, lack of accountability and bad decision-making (in some cases unethical and illegal decisions), more work needs to be done on better understanding the broader social, environmental and development contributions of the mainstream financial sector. At a minimum, more needs to be done by regulators, stock exchanges and by private sector investors, bankers and insurers themselves to take broader social and environmental risks into consideration when undertaking major financial transactions. Important strides have been taken in this context in recent years through initiatives such as the Equator Principles.



Source: Investing for Social & Environmental Impact, Monitor Institute, 2009

Sources: *Investing for Social and Environmental Impact: A design for catalyzing an emerging industry*, The Monitor Institute, 2009 (www.impactinvestingnetworking.org). *Blended Value Investing: Capital Opportunities for Social and Environmental Impact*, The World Economic Forum, 2006. *Private Investment for Social Goals: Building the Blended Value Capital Market*, The World Economic Forum, IFC and Rockefeller Foundation, 2005

III. PRIVATE FINANCIERS

1. Delivering microfinance services to the poor

According to the World Bank, “Nearly 3 billion people in developing countries have little or no access to formal financial services that can help them increase their incomes and improve their lives. Access to a range of financial services – savings, loans, micro-insurance and money transfers – enables poor families to invest in enterprise and in better nutrition, improved living conditions, and the health and education of their children.”¹²⁶

A key challenge is to develop viable business models to deliver such services to the poor in a manner that is affordable, reliable and sustainable, and capable of going to scale. As the Indian-based ICICI Foundation for Inclusive Growth states:

“Access to comprehensive financial services is an essential part of the development process. Financial services enable individuals and enterprises to allocate their resources most productively by allowing them to better manage risk (e.g. buy insurance) and take advantage of future opportunities (e.g. saving today to build capital for tomorrow).”¹²⁷

(i) Meeting the financial needs of the poor

Financial services serve a number of different purposes in the lives of the poor, the way they do for the rich:

- **Production**
 - Inventory to resell (street hawker, kiosk owner)
 - Raw materials for value-added processing (food vendor, artisan)
 - Inputs for agricultural production (smallholder farmers)
 - Equipment (all of the above)

- **Consumption**
 - Day-to-day purchases like food, transportation
 - Larger investments such as housing, vehicle, electrical appliance
 - Loans to support education

- **Risk management**
 - To sustain productive activities and be able to meet critical consumption needs in the event of crises such as illness, accident, death, theft, drought, flood, or other natural disaster

There is a compelling case to be made that the need for a variety of affordable and reliable financial services is even more acute for the poor, because their incomes are low and erratic.

As the authors note in *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*:

“...it is striking how many commonalities we found among our households, despite the differences in their environments [rural villagers and slum dwellers in Bangladesh, India and South Africa]. Every household in our 250-strong sample, even the very poorest, held both savings and debt of some sort. No household used fewer than four types of instrument during the year: in Bangladesh the average number of different types of instruments used was just under 10, in India just over eight, and in South Africa, 10. These numbers refer to the *type* of instruments used: the number of times these instruments were used in the year was of course much greater. In Bangladesh, for example, the 42 households between them used just one instrument – the interest-free loan – almost 300 times in the year.

... Of all the commonalities, the most fundamental is that the households are coping with incomes that are not just low, but also irregular and unpredictable, and that too few financial instruments are available to effectively manage these uneven flows. It is a “triple whammy”: low incomes; irregularity and unpredictability; and a lack of tools.”¹²⁸

Portfolios of the Poor goes on to conclude,

“...we distinguish three key services that are greatly in demand but often inadequately provided. Offering solutions to these key services give microfinance providers three big opportunities:

1. Helping poor households manage money on a day-to-day basis
2. Helping poor households build savings over the long-term
3. Helping poor households borrow for all uses.

In some places, providing insurance will also provide a big opportunity, but the diaries remind us that from a household's perspective what matters is being able to manage risk, not being insured per se.”¹²⁹

A range of private financiers are now involved in delivering these financial services to the poor, either directly or through intermediaries such as microfinance institutions (MFIs). They include:

- Financial corporations, from commercial banks and institutional investors to insurance and leasing companies, as well as other companies that are building more inclusive value chains in sectors such as food and beverage, extractives and tourism, and as purchasers or retailers are finding it necessary to finance their micro-suppliers and customers. These corporations are supporting microfinance initiatives through a combination of their core business operations and their philanthropic and social investment activities.
- There has also been growth in the number and reach of social enterprises and community-based organizations that are developing market-based solutions to provide either finance or a combination of finance and support services to micro and small-scale producers and to poor consumers, either on a for-profit basis or through using hybrid, ‘blended-value’ approaches.

Together these private financial actors are re-tooling existing financial instruments and asset classes to serve the poor both directly and through wholesale options. Some are also exploring totally new business models and modes of collaboration with each other and with donors, governments and foundations. The latter group of development actors is helping to seed market innovation, strengthen financial intermediaries and other key institutions, and build the fields of both microfinance and small business finance more generally.

The following table provides a very small illustrative sample of some of the market-based approaches that are emerging to meet the different financial needs of the poor.

Many private financiers are more interested in providing micro-finance services for some needs than for others. The majority of the microfinance initiatives to-date has focused attention on micro-credit and on supporting micro-enterprise. Private financiers, even the socially motivated ones, often prefer to support productive activities rather than consumption. Housing microfinance providers, for example, would rather their loans not be used for weddings, funerals, tuitions or shoes for the children of their borrowers. But money is fungible and it isn't totally possible to target. The poor are both producers and consumers and they are using all the tools and strategies available to them to manage both sides of this coin simultaneously.

As the authors of *Portfolios of the Poor* point out:

“...many microfinance providers still prefer their borrowers to use their loans for just one purpose – micro-enterprise. Where this is enforced, clients cannot borrow for other vital uses even when they have the cash flow to service the loans. Our own research in Bangladesh shows that many loans ostensibly taken for micro-enterprises are used for other purposes. It is time for microfinance not merely to face up to this reality, but to embrace the opportunity it represents. By offering general-purpose loans, matched in value and structure to the cash flow of poor households, microfinance would open up the biggest single market it is likely to find among the poor (especially the urban poor who tend to be waged rather than self-employed), and one that would be greatly appreciated by most of our diary households.”¹³⁰

Illustrative examples of market-based microfinance services

SERVICE	EXAMPLE
Diverse microfinance services	Indian microfinance institution BASIX has provided working capital loans to the rural and urban poor since 1996. In 2001, BASIX realized that credit was necessary but not sufficient for the creation of livelihoods. Now, the institution provides a range of financial services including credit, savings, insurance, and remittances; agricultural and business development services; and institutional development services. Today BASIX has more than 600,000 microcredit customers, 200,000 savings customers, and one million insurance customers. ¹³¹
Investment capital	Tribanco , the financial services arm of Brazilian white goods distributor Grupo Martins , provides credit for store improvements like technology, lighting, and displays to the hundreds of thousands of tiny retail shops in Martins' customer network. While other banks shy away from such shops, Tribanco dedicates over 80% of its lending to them and finds that their investments generally more than pay for themselves. In addition, Tribanco offers its clients the opportunity to issue their own, branded credit cards to their shoppers – a huge point of pride for these small retailers (see below). ¹³²
Micro-Franchising	The Healthstore Foundation is a nonprofit organization supported by philanthropists and companies. It is working in partnership with Management Sciences for Health (MSH) to implement a franchising model that supports over 80 for-profit Child and Family Wellness Shops (CFWs), which are micro-drug stores, operating in rural areas of Kenya, often in busy market centers. The network operates two franchise models – basic drug shops owned and operated by community health workers and clinics, owned and operated by nurses. The model uses key elements of successful franchising – uniform systems and training; careful selection of locations and franchisees; and strict quality control. The local health micro-entrepreneurs benefit from the brand, training, logistics support and lower costs of medicine facilitated by the network's combined purchasing power. ¹³³
Consumer credit	As indicated above, Tribanco also offers consumer credit to its clients' patrons. Participating retailers are not responsible for non-payment on the part of their shoppers, but they have incentives to help ensure that shoppers repay – the better the overall repayment rate, the smaller the fee Tribanco charges. Late payment is not infrequent, but non-payment is only about 5%. Tribanco is now the biggest issuer of private label credit cards in Brazil. For many of its cardholders, this is their first credit card, which helps them establish and build credit histories, paving the way for further financial sector inclusion. ¹³⁴ Grupo Elektra , a Mexican retailer of household appliances, has provided consumer credit for many years to the more than 70 million Mexicans at the base of the pyramid it counts among its customers. Building on this experience, Elektra added services like savings and remittances, and in 2002 began to provide these customers – many of whom could not access traditional banks – the full range of financial services through a new financial services arm, Banco Azteca. Azteca now counts over 15 million bank accounts. ¹³⁵
Housing microfinance	Mexican cement giant CEMEX's Patrimonio Hoy model provides housing microfinance using a consumer credit-like model. The model consists of a 70+ week payment plan in which participants make weekly payments of 120 pesos for construction materials, including a 12.5% fee. After five weeks, participants receive their first installment of materials worth 10 weeks of payments. Participants who pay on time can speed up deliveries in subsequent cycles, e.g. receiving the second 10-week installment after only two weeks of payments. Those who do not pay face ostracism from their peers, an effective deterrent. ¹³⁶

Illustrative examples of market-based microfinance services continued

SERVICE	EXAMPLE
Housing microfinance continued	<p>In contrast with Patrimonio Hoy, Grameen Bank's housing microfinance offer looks more like a micro mortgage. Grameen offers four housing loan products, ranging from pre-basic (\$100 with a 3-year repayment period) to complete (\$200-400 with a 10-year repayment period). The latter is most popular, and borrowers will often complement their loans with their own savings, often in equal or greater amounts. Grameen charges 8% annual interest on housing loans, compared with 20% on income generation loans. All Grameen loans are paid back in weekly installments.¹³⁷</p>
Micro-Leasing	<p>In Tanzania, Sero Lease and Finance Limited (SELFINA) is a for-profit micro-leasing company that provides finance, business training and other economic empowerment services to over 10,000 clients, most of whom are low income rural women. Its micro leases help them to acquire assets that they can either use to create or add economic value to through their micro-enterprises or use as collateral to support further business growth. For women with a good credit record, the company has started to offer larger business expansion loans.¹³⁸</p> <p>In Rwanda Vision Finance, the financial arm of World Vision International, leases bicycles to coffee farmers who bring their produce to market manually. The bicycles are durable with eight gears and shelves specially designed to carry heavy loads. They cost approximately \$140, and payments are spread over the course of a year. IFC, which co-designed the program, is helping develop other leasing models in Cameroon, the Democratic Republic of Congo, Ghana, Madagascar, Senegal, and Tanzania.¹³⁹</p>
Micro-Insurance	<p>SwissRe, one of the world's leading global reinsurers, is experimenting with a number of micro-insurance products and partners in the areas of agriculture and health. In Malawi, for example, it is working with MicroEnsure (a microinsurance intermediary), a consortium of local primary insurers, a farmers' association and several MFIs to explore different models for delivering index-based weather insurance to the farmers. In Pakistan it is working with a local insurer, the Aga Khan Agency for Microfinance and local MFIs to introduce commercially marketed insurance to reduce household vulnerability against risks such as death, illness and loss of livestock. In Ethiopia it is working with Oxfam and others to provide smallholder farmers with a financial package of risk reduction, crop insurance and credit to combine efforts to increase productivity and manage climate risk.¹⁴⁰</p> <p>LeapFrog Insurance was established in 2007 by former Managing Director of Ashoka, Andrew Kuper and others, as a dedicated microinsurance fund. It aims to deliver strong returns to its investors by investing in businesses that deliver insurance services to some 25 million vulnerable people in Africa and Asia. To date the fund has raised over US\$130 million in capital from a variety of major banks, institutional investors, foundations and donor agencies. In addition to investing in microinsurance businesses, it operates LeapFrog Labs, a grant-funded technical assistance facility that works with companies to expand the quality and reach of their microinsurance products.¹⁴¹</p>
Savings	<p>In Ghana, for a fee, traditional microfinanciers called "susu collectors" gather their clients' savings on a daily or weekly basis and return them at the end of the month, thus acting as mobile savings accounts. More recently, the susu collectors have begun working with Barclays Bank through the Ghana National Association of Susu Collectors. Barclays has provided training on record keeping and financial management to the collectors and their clients, and also created an investment account, which allows clients' deposits to be used for on-lending. More than 400 collectors now participate, collecting more than \$4.5 million and offering loans of \$400,000 since the program began – with a 100% repayment rate.¹⁴²</p>

Illustrative examples of market-based microfinance services continued

SERVICE	EXAMPLE
Savings continued	Ashoka Fellow Salomon Raydán’s community-run Bankomunal model also takes savings to the next level, turning it into active investment. When community members have a little extra cash, they deposit it with the Bankomunal, which then lends to community members who need a little extra cash – with interest, so that savers earn a return on their money. Next time a depositor needs a bit of cash, he or she can take a loan. The Bankomunal thus aggregates erratic cash flows at the individual level to smooth cash flows at the community level. Bankomunales are run by community leaders and depositors get to vote on key decisions. Because loans are given among neighbors, repayment rates are near perfect. More than 80 Bankomunales have been established in Venezuela with others throughout Latin America. ¹⁴³

(ii) Harnessing information and communications technology to scale impact

One of the big ‘game-changers’ in the microfinance movement and the field of poverty alleviation more generally has been the use of information technology to improve the reach, cost-effectiveness and profitability of delivering financial services to the poor. Some examples of its impact are outlined in Box 29.

The rise of mobile money and branchless banking has been particularly important in countries as disparate as Afghanistan, Kenya, South Africa, and the Philippines, mobile phone users can now use their phones for transactions and services ranging from purchases to remittances to bill payments to payroll deposits. In lower income markets, users typically “deposit” cash into their mobile money accounts at authorized agents ranging from mobile phone shops to roadside kiosks, and then manage transfers in and out via text message. In higher income markets like Japan, where consumers have bank accounts, Internet access, and near field communication-enabled phones, they can load their accounts via credit card and pay by touching their phones to point-of-sale devices.

As mobile money spreads, it will have significant implications for economies across the board – generating significant savings compared with the use of cash. But in the poverty alleviation context, it is mobile money’s potential to facilitate financial sector and overall market inclusion that makes it so exciting. By 2012, the number of people with mobile phones is expected to exceed the number of people with bank accounts by 1.7 billion, up from one billion today.¹⁴⁴

As a recent CGAP report states, “notwithstanding recent hype, branchless banking for the poor is at an early stage of development.”¹⁴⁵ The number of deployed mobile money initiatives doubled between the 2008 and 2009 ‘Mobile Money Annual Summits’, reaching more than 120. The small number of examples given below illustrate the potential. If providers “continue learning about their consumers, especially in unbanked segments; pay attention to the business drivers for greater collaboration; and deepen the business-government dialogue on enabling environments for growth,” mobile money should “reach critical mass, fulfilling its potential as a market opportunity and as an instrument of poverty alleviation.”¹⁴⁶

Box 29: The scaling power of ICT: From financial data management to mobile money

Technology has played a critical role in expanding access to a full range of microfinance services to hundreds of millions of people living in poverty around the world. For example:

Equity Bank in Kenya transformed itself from a struggling mortgage bank in 1992 to the Microfinance Bank of the Year in 2009 in part with the help of a computerized management information system it launched in 2000 and upgraded in 2005 to accommodate many more users and access channels like ATMs and retail points of sale. The bank also introduced a network of over 30 mobile banks in the form of all terrain four wheel drive vehicles, manned by bank employees and security staff, and equipped with solar-powered computerized systems, printers and scanners to check ID documents, and in constant communication with the branches via GPS and VHF radio. The bank now counts more than one million customers, over 30 percent of all bank accounts in Kenya.¹⁴⁷

M-PESA, Kenya: M-PESA was the pioneering mobile money service that demonstrated the immense potential of such a system for the poor. It was launched in 2007 by Kenya-based Saficom, and Vodafone, following a pilot in 2005 supported with challenge funding from the UK's Department for International Development. M-PESA allows recipients to transfer money using mobile phones. It is supported by over 11,000 agents throughout Kenya, many of them small retail shops, cyber cafes, petrol stations and supermarkets, as well as banks. As of 2010, M-PESA had more than 18 million subscribers, having experienced a 53 percent growth rate from the previous year. It has also launched an international money transfer service, with potential for supporting remittances. In a report on the growing power of mobile money, The Economist noted that "roughly \$2 million is transferred through the system each day," and that "in rural households that have adopted mobile money, incomes have increased by 5-30 percent."¹⁴⁸

FINO – Financial Information Network and Operations Ltd – uses biometric-enabled, smart card-based solutions to provide financial services to semi-urban and rural populations in India. Working for banks, microfinance institutions, insurance companies, and government agencies, FINO sources customers using a network of agents, provides customers with client-branded smart cards, and enables customers to interact with clients via mobile point-of-transaction devices. On the back end, FINO aggregates and maintains data transferred from those devices on its or its clients' core systems. This method of financial service delivery has brought the cost down to approximately a quarter of the cost of existing alternatives, enabling the company to enroll over five million customers since 2006.¹⁴⁹

Roshan, Afghanistan: Roshan is the largest telecommunications outfit in Afghanistan. It supports M-PAISA, which allows transactional banking via mobile phone. With 1100 employees, Roshan is one of the largest companies in Afghanistan, and the country's largest taxpayer, contributing \$146 million in taxes through 2008. The company's network extends to all 34 provinces in Afghanistan and is in 230 cities and towns. The company worked hard to develop the local human capital that would help build a sustainable company. In an article in the MIT journal Innovations, Roshan CEO Karim Khoja wrote, "When we began, we needed a plethora of engineers to build our network. Initially, over 10,000 people applied for jobs, but none were qualified. Given his limited options, our chief technology officer hired anyone who could speak some English and turn on a computer. So we learned that we would have to provide on-the-job training."¹⁵⁰

Smart Communications, Philippines:

Reaching more than 38 million subscribers in the Philippines, Smart offers a variety of mobile commerce services that allow individuals to pay bills, shop online, transact remittances from workers abroad and disburse or repay microfinance loans. Alex Ibasco, Group Head of New Business Streams at Smart Communications, says, "Smart has no illusion it can build everything. Instead, we take a strategy of inclusion, inviting people to come in and create businesses out of areas where there are gaps. We think of ourselves as a horizontal infrastructure enabler and we look for people that think vertically. Creating businesses out of the gaps – that is the only way."¹⁵¹

ZAP, Tanzania: ZAP is the mobile commercial service of Zain, the Middle East and Africa mobile network operator that purchased Celtel. ZAP was launched in early 2009 as a stored value account in partnership with a number of international and regional banks, in particular Citibank and Standard Chartered Bank. Within a year it had more than 12 million customers across seven African countries (Tanzania, Uganda, Ghana, Sierra Leone, Niger, Malawi and Kenya) where some 80 percent of the population is unbanked. The service is supported on all handsets, including the low cost handsets (ULCH) which Zain is rolling out in Africa.

WING, Cambodia: WING, a subsidiary of ANZ Bank, introduced mobile money services in January 2009 in Cambodia, a country of 14.5 million people the vast majority of whom are unbanked. WING customers can send money to other customers and non-customers alike using 10-digit PIN codes which can be redeemed for cash at any of 600-odd cash in/out points around the country. In only eight months, WING acquired more than 33,000 customers, 68 percent of whom were previously unbanked.¹⁵²

(iii) Building the field of microfinance

Even with the use of e-enabled business models, most for-profit financial institutions and other large companies that are trying to include the poor as producers and consumers along their value chains, find it difficult to sustain and scale economically viable approaches to financing the poor. This is especially the case when it comes to microfinance. Many have adopted a ‘wholesale’ approach by funding and working in partnership with microfinance institutions (MFIs). These are for-profit and nonprofit organizations that are usually dedicated to serving the poor and better equipped to directly reach them with affordable and reliable financial services.

In the decade from the early 1990s to mid-2005 microfinance institutions showed dramatic growth in size, number and efficiency. The leaders among them demonstrated the commercial viability of microfinance services. In 2004 with the assistance of a partial credit guarantee from the IFC, Fianceria Compartmos a Mexican microfinance intermediary launched a US\$44 million bond program. This earned the 2004 *Latin Finance Deal of the Year* award as well as the 2006 *Financial Times Sustainable Deal of the Year*. In 2007, *Forbes* magazine, one of the media bastions of capitalism, produced its first-ever list of the *World’s Top 50 Microfinance Institutions* (MFIs), selected from 641 micro-credit providers.¹⁵³ Although not without controversy, these two events were symbolic milestones in the transition of microfinance from a largely nonprofit, publicly or philanthropically-funded field to a commercially-viable asset class. One that is driven increasingly by profitable market-oriented microfinance intermediaries (MFIs) and by business models capable of attracting and leveraging not only public and philanthropic funds but also commercial investment.

These MFIs have been able to increase the size, diversity and reach of their loan portfolios, lower their operating costs, improve their risk management, enhance their efficiency, increase their returns on equity and assets, and strengthen their broader contributions to development largely as a result of a coordinated field-building effort. This effort has been driven by pioneering NGOs, social enterprises and socially responsible investors in the microfinance field such as Grameen Bank, BRAC, ACCION, FINCA, SEWA, Opportunity International, Unitus, Triodos Bank, ShoreBank, Calvert and Women’s World Banking. It has been supported by a small vanguard of international financial institutions, corporations, foundations, bilateral donors and governments. The concerted field-building has included:

- The provision of financing and business development services, especially training to MFIs to improve their on-the-ground management capacity
- The ability to harness information technology
Advocacy for improved regulatory and legal frameworks
- Collaborative research
- Peer networking and other field-building efforts.

The **Consultative Group to Assist the Poorest** (CGAP) has played an essential leadership role. It was created in 1995 by the World Bank, with support from public donors and a few private financiers such as Citi. Today, while still housed at the World Bank, it operates as an independent policy and research center dedicated to advancing financial access for the world’s poor. Governed by a multi-stakeholder board, CGAP is supported by over 30 development agencies and private foundations

who share a common mission to alleviate poverty. It “provides market intelligence, promotes standards, develops innovative solutions and offers advisory services to governments, microfinance providers, donors, and investors.”¹⁵⁴

With funding from the Citi and Deutsche Bank Foundations, the Omidyar Network and the Bill & Melinda Gates Foundation, CGAP has helped to create the independent **Microfinance Information Exchange, Inc.** (MIX), which is a business information provider dedicated to providing objective data and analysis on microfinance providers. It has partnered with the Open Society Institute to establish the **Microfinance Management Institute**, aimed at building the capacity of professionals and academics around the world who are working in the field of microfinance. And it has worked with GTZ, the ILO and the International Association of Insurance Supervisors, among others, to create the **Access to Insurance Initiative**, which aims to grow financial inclusion in the insurance sphere by enhancing the capacity of policy-makers, regulators and supervisors. The **Council of Microfinance Equity Funds** is another field-building forum established in the past decade. It brings together about 25 leading microfinance equity investors to share lessons, enhance the financial and social performance of their investments, support research and develop best practices and industry standards.

Individual private banks and insurance companies have also played a vital ‘field-building’ role in the global microfinance movement. At a national level a growing number of commercial banks in developing countries are providing guarantees and other financial services to MFIs. Some are delivering microfinance services directly themselves, as Equity Bank in Kenya, ECOBANK in West Africa, ACLEDA bank in Asia, and BancoSol in Bolivia, among others are doing. Brief examples of several multinational corporations that have played a role globally are as follows:

Citi does business in over 100 countries, with some 200 million customer accounts. It was one of the first large commercial banks to see the potential of the microfinance movement. Over the past decade its engagement has transitioned from being purely philanthropic to the establishment of a mainstream business unit, Citi Microfinance, that provides a combination of commercial financing and technical assistance to MFIs. Combining the different resources and mandates of the corporate foundation and this business unit, along with the company’s wider corporate citizenship and employee engagement activities has enabled Citi to support a wide range of field-building activities. To date, the bank has helped to fund and in many cases scale over 100 MFIs in some 35 countries. It has also been instrumental in facilitating the commercialization of some of these MFIs. It has helped to capitalize a variety of capacity-building funds with partners such as ACCION. Citi was also a major sponsor of the influential Year of MicroCredit in 2005 and has been an active advocate on policy reform in the field of microfinance. The Citi Foundation has granted more than US\$70 million to some 350 microfinance programs and organizations in nearly 60 countries over the past decade. In 2007, the foundation created the Citi Network Strengthening Program. This is a collaborative effort among the Small Enterprise Education and Promotion network (SEEP), 12 regional and national microfinance networks and Citi employees. It is aimed at enabling these networks to strengthen their organizational capacity and to help their members increase outreach to serve more people.

Deutsche Bank is another multinational commercial bank with a presence in over 70 countries that has played an important intermediation and field-building role in microfinance. Since 1997 it has lent to over 100 institutions in close to 50 countries and enabled the provision of microfinance funds that total some US\$1.2 billion. Its engagement has ranged from philanthropic support to the provision of specialized investment banking services that aim to deliver both profitability and social return. It was the first bank to offer an investment fund for microfinance and as of 2010 manages several funds in this field along a spectrum of commercial and social investments. The Global Commercial Microfinance Consortium is an US\$80.6 million fund created by Deutsche Bank in 2005 with partners that include three development agencies, 14 institutional investors and 12 venture philanthropists. It provides long-term, local currency funding at commercial rates to established MFIs. The Deutsche Bank Start-Up Fund provides loan capital and guarantees to early-stage, privately funded and commercially oriented MFIs to support their portfolio growth and to help strengthen their governance and financing capacity. It is capitalized through grants and soft funding. The Deutsche Bank Microcredit Development Fund (DB MDF), which is also capitalized through grants and soft funding, helps established MFIs to achieve scale and sustainability by providing catalytic funds as collateral to attract resources on a leveraged basis from local commercial banks. DB Microfinance Invest No. 1 is a EUR60 million fund that provides capital strengthening Tier 2 compliant subordinated debt to MFIs and serves as a microfinance investment vehicle for German investors. It is capitalized through investments from Deutsche Bank, KfW (the German government development bank), high-net worth individuals, pension funds and foundations. In 2009, Deutsche Bank worked with FINCA International to structure, place and manage the FINCA Microfinance Fund B.V. The US\$21.2 million fund was about 100 percent oversubscribed and is funded solely by private sector investors. It is the first microfinance network subordinated-debt deal, which will enable FINCA affiliates in seven countries to on-lend an estimated US\$100 million in additional loan capital and to make investments in staff, branches and other infrastructure to expand microfinance lending and deposit-taking in these countries.

SwissRe is one of the world's largest and most diversified reinsurers, providing a range of reinsurance products, insurance-based corporate finance solutions and risk management services. Created in 1863, over the past decade the company has been a pioneer in addressing the financial risks of climate change and in exploring micro-insurance services. It is now looking at the convergence between these two areas. It is partnering with a variety of MFIs, development NGOs and academic institutions to develop risk transfer solutions to help poor communities, small businesses and smallholder farmers reduce their vulnerability to climate change. For example, in 2004, SwissRe worked with a local Indian insurer and the World Bank to help launch one of India's first programs to use weather-index based insurance. Today, the company is structuring and pricing a number of such products and cooperating with direct insurers who then sell them on to farmers via their own agents or in partnership with NGOs, community self-help groups, microfinance institutions and rural banks. In 2007, SwissRe launched its Climate Adaptation Development Programme, which aims to develop a more comprehensive risk transfer market for the effects of adverse weather in developing countries. One of its first partnerships has been with the Millennium Promise Alliance and the Earth Institute at Columbia University to develop innovative climate risk indices and weather derivative contracts for 12 Millennium Village clusters in Africa. To date, the

initiative has provided up to US\$2 million of cover, protecting about 150,000 farmers and their families against drought-related food shortages. Some other examples of its work on microinsurance are provided in Box 29.

Allianz is an integrated financial services provider serving approximately 75 million customers in about 70 countries. It has a strong international presence in insurance and is one of the world's largest asset managers. Over the past decade, it has started to work in partnership with microfinance institutions, cooperatives, non-governmental organizations and women's self-help groups, to deliver a range of microinsurance products to low-income households and micro-enterprises. The company started to provide microinsurance as a humanitarian response after the Asian tsunami in 2004. At the time, Bajaj Allianz partnered with CARE International in India to deliver a package covering basic risks of accident, death, loss of household assets, natural disasters and fire. Since 2004, the company has established a microinsurance business offer, which it sees as having a strong social business case in the short to medium-term, as well as being an investment in a longer-term commercial business. By mid-2010, Allianz and its partners were providing microinsurance to some 3.8 million customers most of them in Asia. In addition to India and Indonesia, it had started to build microinsurance markets in Cameroon, Colombia, Egypt, the Ivory Coast, Madagascar and Senegal. Building on their initial offering of a simple loan-coverage life product, the company is now offering a variety of products supported by the expertise of local partners and the use of information technology. These include life-insurance with a savings component, services to help families regularly save for their children's education, community-based mutual health insurance, and cattle insurance and risk management tools for smallholder farmer cooperatives. In addition to the usual 'business model' challenges of providing microfinance such as achieving high volumes, efficient processes and simple, standardized products, Allianz and its local partners have also had to use creative communications and social marketing initiatives to build awareness, knowledge and trust of insurance products among low-income households and communities. Their research in India, for example, showed that 90 percent of the Allianz microinsurance customer base had never even heard of insurance.

In summary, the growth in microfinance over the past decade has underpinned a burgeoning of innovative new products, business models, mindsets and collaborative approaches to delivering market-driven financial services directly to the poor. The scale and economic viability of these approaches has been enhanced in recent years by systematic field-building efforts, investments in market-driven microfinance institutions and by innovative ICT platforms and cellular phones that have made it possible to reach millions of people.

Added to this, the award of the 2008 *Nobel Peace Prize* to Grameen Bank and its founder Muhammad Yunus has raised public awareness of microfinance as a viable and inspiring approach to tackling poverty and to empowering women from Bangladesh to the United States. It has caught the public imagination, unlocking increased amounts of donor funds and both investments and philanthropic contributions from the general public.

Microfinance is not without its skeptics or critics. Criticism and opposition are usually focused on one of the following areas:

- Questions about the financial viability, scale and sustainability of microfinance institutions;
- Debate about the effectiveness of microfinance in alleviating poverty and delivering sustained improvements in the lives of the poor, and the related lack of consistent metrics to measure its impact; and
- Concerns that the growth in for-profit microfinance institutions and lack of regulation of the burgeoning microfinance industry have led to unreasonably high interest rates and exploitation of the poor.

In 2010, actions taken by the Indian state government of Andhra Pradesh in response to a spate in suicides by indebted farmers halted debt repayments, creating serious challenges for the microfinance industry in India and questions for the field more broadly. Commercial viability of microfinance institutions is important for ensuring their sustainability and ability to scale, and the growing numbers of both nonprofit and for-profit microfinance institutions have demonstrated their ability to serve the poor more efficiently and at lower costs than informal money-lenders or most bureaucratic public sector programs. At the same time, as the microfinance industry matures and continues to grow beyond the 200 million people currently served, there is recognition by industry leaders of the need for sound policy frameworks and regulation and ongoing efforts by the industry to measure impact, set common standards and be vigilant in terms of responsible business practices and accountability.

Empirically measuring financial returns and social impact remains a challenge. A report by economist Kathleen Odell for the Grameen Foundation reviews ten of the most important studies on microfinance over the past five years. It concludes that,

“The research into the impact of microfinance that has emerged over the last five years offers some encouraging results. There is evidence from a number of studies (using a variety of methodologies across different settings) suggesting that microfinance is good for micro-business. This result is observed across different microfinance services, including microcredit and micro-savings instruments. Based on the studies the overall effect on the incomes and poverty rates of microfinance clients is less clear, as are the effects of microfinance on measures of social well-being, such as education, health and women’s empowerment.”¹⁵⁵

While this assessment is cautious, there is a need to keep focused on making micro-finance services as responsive to their client needs as possible, and scaling and sustaining them. A joint paper by several leading microfinance intermediaries on the impact of microfinance offers a useful summary of the contribution it can make to empowering the poor and to building more inclusive financial systems and societies. This is summarized in Box 30.

Box 30: Assessing the impact of microfinance: Excerpt from a statement by leading microfinance organizations

The real impact of microfinance lies in its ability to create inclusive financial systems and inclusive societies—societies where the individual is not shut out of what that society has to offer. We believe that microfinance specifically allows households and enterprises to benefit from financial inclusion in seven distinct, although related, ways:

1 Facilitating economic transactions:

Lack of payment services mean microentrepreneurs often travel long distances and wait in line to make transactions, which is time-consuming and risky. Mobile payment services can both save time and reduce risk.

2 Managing day-to-day resources:

Low-income families can use credit and savings to tap into past or future income, helping them to both take advantage of immediate opportunities or, for example, to survive the annual 'hungry season.'

3 Accessing services that improve quality of life:

Financial services give families access to education, healthcare and other necessities that improve quality of life, through such tools as school fee loans, health insurance and home-improvement loans.

4 Protecting against vulnerability:

Savings, credit and insurance provide sustainable and low-cost coping strategies. If a household loses a source of income, it might not have to withdraw a child from school, sell a valuable asset, or fall deeper into poverty.

5 Making productivity-enhancing investments: Clients can improve their businesses using credit or savings for investments such as sewing machines, refrigerators or farm tools.

6 Leveraging assets: The poor own assets, but without recognition by the formal sector, they cannot leverage them, as Hernando de Soto has argued. Allowing poor households, particularly the women who run them, to borrow against these assets helps them capture the existing financial value, facilitating long-term investments.

7 Building economic citizenship: Financial services foster independence. Microfinance can help clients to grow more self-confident and, with that economic citizenship, to step out and become involved in local government, garnering the respect of their communities.

We need to be reasonable and measured in our claims for what microfinance can accomplish. To thrive, microfinance requires a host of favorable conditions, including a sympathetic regulatory environment, political stability, mission-driven practitioners, cost-effective delivery, capital adequacy and – most of all – clients ready and able to leverage its services.

Nor can microfinance be reduced to a sound bite. A host of critical and complex issues must be consistently considered and thoughtfully debated, including consumer protection, fair lending, transparency, acceptable profits, measureable impact, and capital-market investment, to name but a few. 'Financial access' and 'building inclusive societies' are more forthright terms to describe what microfinance delivers, without risking either simplification or exaggeration.

Microfinance takes effort to understand, and patience to exercise. It is but one mechanism in the toolkit of global poverty alleviation – although one that has clearly demonstrated scale, sustainability, results, and enormous further potential.

Signed,
ACCION International
FINCA
Grameen Foundation
Opportunity International
Unitus
Women's World Banking

III. PRIVATE FINANCIERS

2. Investing in small and growing businesses

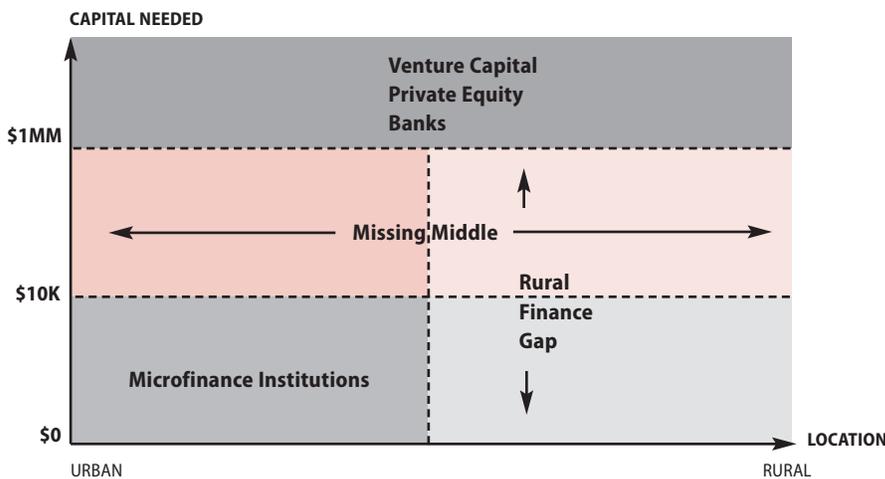
The goal of improving access to finance for small businesses in developing countries has been a fixture on the international development and aid agenda for many more years than microfinance. Yet, to date it has struggled to gain traction even within the development community, let alone capture the public imagination or attract finance from private financial institutions, corporations and foundations – whether at commercial market rates, below-market rates or through philanthropic grants.

When it comes to financial services, the small businesses that play such an essential role in job creation and wealth generation are increasingly dubbed, “The Missing Middle” – they are considered too large to receive services that are targeted at micro-enterprises and too small for corporate finance.

i) Meeting the financial needs of small and growing businesses

Both access to finance – whether debt, equity or quasi-equity – and the cost of finance is a challenge for most small enterprises in developing countries. This is the case even for the high-impact, opportunity entrepreneurs described in the section on entrepreneurship, which offer the greatest hope of raising productivity and employment levels. When there have been programs to support these high-potential small enterprises, all too often they have offered the wrong type or combination of products and business development services. In many cases this is because they have been supply-led and donor or government-driven rather than demand-led and market-based.

Patricof and Sunderland argue, “Donors need to face the reality that the young companies that can really move the needle on innovation, inspiration, and employment need high-risk, reasonably-sized equity investments to grow, not the limited doles of short term, high interest debt currently provided.”¹⁵⁶ They observe that the type of long-term, permanent equity capital provided to young growth companies in developed countries by Angel investors and venture capitalists is almost impossible for similar companies to access in developing countries.



Source: Enterprise Development and Microfinance, December, 2008 *Closing the gap: Reaching the missing middle and rural poor through value chain finance*, Brian Milder

Citing challenges such as weak managerial capacity, business environment risks, limited exit opportunities, high transaction costs, limited deal flow and currency risk, they argue that, “The combination of these factors makes SME investing in growth-oriented companies in developing countries difficult, if not impossible, to justify in commercial terms.”¹⁵⁷ They are among a growing number of investment practitioners calling on donors, governments and private sector financial institutions to explore new financing models that, “take into account the high risks, high transaction costs, low volume, and below market rates of return endemic to the sector.”¹⁵⁸

The *UN Commission on the Private Sector and Development* concurs with this challenge. Like Patricof and Sunderland, it argues that a web of factors is at work, not just lack of capital. Related challenges cited by the commission include: weak property rights; lack of enforcement of contracts; lack of bankruptcy laws, further increasing the risk to investors; poor financial institutions with limited interest and lending skills for entering this market; lack of reliable credit information agencies and disclosure requirements; illiquid capital markets and lack of exit opportunities; and lack of skill and will on the part of SME entrepreneurs themselves for receiving risk capital.¹⁵⁹

While these obstacles are not insurmountable, most of them require new approaches and a balance between government-supported interventions, market-driven incentives, and ‘blended value’ investment approaches. In particular, there is growing recognition that more market-based and demand-driven business models are needed for financing and supporting small enterprises. This is rather than the direct, supply-side and subsidized provision of finance and services by governments and donors that have tended to characterize many traditional small enterprise development programs.

(ii) Building market-based small business intermediaries

A number of market-oriented intermediary organizations have demonstrated their ability to effectively identify ‘opportunity’ entrepreneurs, and to help them access the right types and combinations of growth capital and support services that they need to grow. Box 31 illustrates examples of some of these market-based approaches. These intermediary organizations and others like them, especially those that are starting to emerge in developing countries themselves, require the same kind of field-building and scaling support that has been so effective in the microfinance industry in terms of enabling for-profit or at least economically sustainable MFIs to increase in both number and scale.

In 2008, a group of investors, philanthropic foundations, and intermediaries joined forces to establish the **Aspen Network for Development Entrepreneurs (ANDE)**, a collaborative initiative with the explicit goal of overcoming some of the major market barriers that SGBs face in accessing financing and business development services and thereby helping to build both the size and the financial performance and development impact of the SGB sector. At its launch in 2008, ANDE had identified an estimated 150 organizations providing approximately US\$4 billion in capital and services to small and growing business in developing countries. In the space of two years ANDE had over 100 members operating in some 130 countries. Box 31 profiles six of these organizations.

BOX 31: Market-oriented social enterprises financing small and growing business

Small Enterprise Assistance Funds (SEAF) –

Established in 1989, SEAF is one of the pioneers in providing growth capital, both debt and equity, and operational support to small locally-owned enterprises with high growth potential in more than 30 emerging economies. Initially established a private investment subsidiary of the development nonprofit CARE with funding from USAID, today SEAF operates as an independent entity that manages funds in a variety of countries and industry sectors and includes international finance institutions, local pension funds, banks, insurance companies and foundations among its investors. It also provides entrepreneurs with business development training and technical assistance through the Center for Entrepreneurship and Executive Development. Since its establishment SEAF has managed 26 funds and invested in over 300 emerging market enterprises. In addition to realizing positive returns for its public and private investors, it has demonstrated how its portfolio companies have been able to create both business value and development impact. Independent research has shown that each enterprise in SEAF's portfolio supports an average of 331 other local businesses, and sells to approximately 500 business customers and/or 2400 individual end-users. Many enterprises in the portfolio play an important aggregator role, making it easier for other small enterprises to enter formal value chains and markets.

E+Co – Established in 1994, E+Co provides debt and equity seed and growth capital alongside business development services to small and growing clean energy businesses in over 20 countries in Africa, Asia and Latin America. It has over 150 enterprises in its portfolio, including solar, wind, biogas, LPG, hydro, and its investments range from US\$25,000 to US\$1,000,000. E+Co raises capital through a combination of philanthropic and development agency grants, loans, and equity. Once locally-based investment officers have identified energy-related enterprises that use affordable and reliable technologies, demonstrate sound management, and have the potential to grow and to deliver social and environmental benefits, investments are analyzed and approved by an independent Investment Committee. This consists of experts in the areas of finance, international development and clean energy technology. In addition to playing a vital intermediation role in supporting enterprise development, local income generation and poverty alleviation in low-income communities, E+Co's model has also delivered clean energy to over 4 million people. It plans to increase this number to 20 million by 2012 and 100 million by 2020. Through carbon monetization, E+Co is developing an innovative new source of funding, while also cutting carbon emissions. It has created a wholly owned subsidiary, E+Carbon, that identifies high impact projects and works with local enterprises to meet data collection and carbon documentation requirements to meet third part approval by initiatives such as the Voluntary Carbon Standard, Gold Standard and Clean Development Mechanism. Through a strategic relationship, E+Carbon sells all of the offsets generated to Goldman Sachs. The carbon revenues earned help to mitigate E+Co's investment risk.

Root Capital – Established in 1999, Root Capital provides capital and business training to small-scale producers and rural grassroots businesses operating in environmentally sensitive areas in 30 countries in Latin America and Africa. It employs a three-pronged strategy of rural finance, business advice and field building. It provides both short-term working loans and longer-term investments to producers of sustainable coffee and increasingly cocoa, handicrafts, ecotourism, fruits, spices, nuts, honey and fisheries. For many of its loans Root Capital uses future sales contracts from companies such as Green Mountain Coffee Roasters, Marks & Spencer, Starbuck and Whole Foods as a form of collateral. The buyer orders produce from the grassroots business, Root Capital then makes a loan with the purchase order as collateral, once the goods are shipped the buyer pays Root Capital, which then remits payment to the grassroots business, net of loan principal and interest. In addition, Root Capital offers a financial education program for these grassroots businesses. It advises local financial institutions on how to enter rural markets and plays an active role in fostering the field of small business finance. As of May 2010, Root Capital had reached 400,000 smallholder farmers and artisans through its 282 borrower enterprises and disbursed US\$200 million in loans, with a 99 percent repayment rate from borrowers. In 2009, it received one of the first program-related investments from the agricultural development initiative at the Bill & Melinda Gates Foundation. This combines a six-year, US\$10 million PRI, which Root Capital will use as loan capital to scale its operations to reach some 500,000 rural households in Africa, and a US\$4 million operating grant, which will support Root Capital's five-year growth plan and goal to achieve a financially sustainable lending portfolio by 2013.

Source: Company and partner materials

BOX 31: Market-oriented social enterprises financing small and growing business continued

Acumen Fund – Acumen Fund was incorporated as a nonprofit venture fund in 2001, with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists. It leverages philanthropic capital to make disciplined loan or equity investments to early-stage enterprises that serve low-income consumers, with the aim of yielding both social and financial returns. Any financial returns are recycled into new investments. Its investment portfolio focuses on enterprises that deliver affordable and reliable access to healthcare, water, housing, alternative energy or agricultural inputs through innovative and market-oriented business models. Acumen defines patient capital as having the following characteristics: long time horizons for the investment; risk-tolerance; a goal of maximizing social, rather than financial, returns; providing management support to help new business models thrive; and the flexibility to seek partnerships with governments and corporations through subsidy and co-investment, when doing so may be beneficial to low-income consumers. It makes commitments of patient capital to high potential enterprises in the range of US\$300,000 to US\$2,500,000 with payback or exit aimed for within five to seven years. To-date Acumen Fund has made investments in over 30 enterprises in India, Kenya, Pakistan, Tanzania, the United Kingdom and United States. Acumen is now supported by a diverse network of individual and institutional investors who support its work through donations that range from US\$25 to over US\$5,000,000. In 2007, it established the Acumen Fund Fellows Program to provide one-year leadership development opportunities to high-potential social entrepreneurs. Acumen has also been a leader in pioneering performance metrics to assess the impact of its own portfolio and is supporting the collaborative initiative to develop Impact Reporting and Investment Standards for the field.

GroFin – Established in 2003, GroFin is an African-based finance and business development company supporting small and growing businesses through a combination of seed and growth capital, business development advice and mentorship. As of mid-2010, GroFin had over US\$250 million under management. It operates in South Africa, Nigeria, Ghana, Kenya, Uganda, Tanzania, Rwanda and Oman, with plans to expand to a further five African markets over the next three years and raise its capital base to US\$ 400 million. Since 2004, it has identified, funded and partnered with over 180 enterprises, all of them in the formal sector, providing either start-up or expansion capital ranging from US\$50,000 to US\$1,000,000, and a range of support services and networks. These enterprises have created or maintained over 5,000 jobs, more than a quarter of whom are women, and benefited close to an estimated 41,000 people. As measured since 2008, women also own some 27 percent of the enterprises. GroFin has advised all the enterprises in its portfolio on implementing environmental, social and governance policies and helped them to adopt new technologies and management systems. GroFin's partnership-based approach to working with the enterprises in its portfolio has also helped promote the adoption of new technologies and management systems. Together, they are playing an active field-building role with other intermediaries to raise global awareness and funds for small and growing businesses. Other investors include international finance institutions and corporate foundations. Several public and commercial African banks have also partnered with GroFin, such as Absa Bank, Bank of Africa, Commercial Bank of Africa, Diamond Bank, DFCU Bank and the African Development Bank.

Grassroots Business Fund – The Grassroots Business Fund (GBF) was established as an independent institution in 2008, after four years of incubation as the Grassroots Business Initiative of the International Finance Corporation (IFC). GBF targets for-profit small and medium enterprises with explicit social missions, with the goal of creating sustainable economic opportunities and access to basic services for millions of people living at the base of the pyramid. GBF's approach includes both patient investment and capacity-building support intended to help its portfolio companies grow to scale. On the investment side, the fund offers equity, quasi-equity, and debt in amounts ranging from \$250,000 to \$1 million, typically for periods of about five years. The fund can also offer short-term working capital loans of between \$40,000 and \$150,000 through a separate SME Export Facility. On the capacity-building side, fund staff work with portfolio companies to improve overall management as well as governance structures and planning and reporting processes. GBF's capacity-building services are generally grant-funded and provided free of charge. So far, GBF has committed \$7 million to 31 companies in 12 countries in Africa, Asia, and Latin America, in sectors such as agribusiness, financial services, information technology, and energy. Collectively, these companies are estimated to have helped create entrepreneurial opportunities for 425,000 people and improved access to services for over four million.

III. PRIVATE FINANCIERS

3. Scaling emerging market ‘champions’

As outlined in the section on entrepreneurship, opportunity entrepreneurs constitute only a small percentage of all entrepreneurs in developing countries. And of these opportunity entrepreneurs, only a small number have the potential to grow from small or medium enterprises into large companies and into regional or even global business champions. Those that do grow can have a transformational impact on the sectors and regions in which they operate – both in terms of economic growth and in some cases poverty alleviation.

Rooted in local cultures and contexts, and often led by local business leaders who have a sense of civic responsibility as well as entrepreneurial flair, these emerging market corporate champions offer enormous potential for development. They include long-established emerging market corporations that already have a global presence and a reputation for corporate responsibility, such as Tata, Ayala, SABMiller, Anglo American, Odebrecht and Vale. They also include relatively new leaders such as Celtel (now Zain), Bharti, MTN, Globeleq, Infosys, ICICI Bank, Equity Bank, and Ecobank. In addition, there are the rapidly emerging players from China. The individuals who lead these emerging global corporations represent a new generation of business and development actors. Many of them focus on both financial returns and broader social and environmental impact.

The success of these emerging ‘business and development’ champions will obviously depend in part on the availability of growth capital, both debt and equity, from foreign and domestic financial institutions. As outlined in the previous section, equity is important for most growth-oriented small companies. The role of private equity is likely to be especially important when it comes to taking these larger emerging market champions to scale. In fact, this particular group of private financiers itself represents one of the most interesting new groups of actors in international development. Even with the economic downturn it is one of the fastest growing, not only in terms of the number and reach of firms and funds, but potentially also in terms of development impact.

In 2004, for example, a few firms created ‘The Emerging Markets Private Equity Association’ (EMPEA) with the belief that: “private equity and venture capital can be critical drivers of economic growth in emerging markets while simultaneously generating strong returns for investors.”¹⁶⁰ Less than five years after its creation EMPEA has more than 250 members, represented in more than 50 countries and with nearly US\$500 billion under management focused on high-potential companies in the emerging markets of Africa, Asia, Europe, Latin America and the Middle East. Over 75 percent of these firms or funds have been established since 2000.¹⁶¹ Even those that are part of older commercial banks or fund management entities such as Africa’s Absa Bank and Standard Bank have been created as specialized units only in the last five to ten years. Even in the face of the global financial crisis, although fund-raising slowed for emerging markets-dedicated equity funds, investment activity was comparatively strong. According to EMEA, “emerging markets captured 26 percent of global private equity investment in 2009, versus only 7 percent in 2004, with US\$ 22.1 billion invested across 674 deals.”¹⁶² While Asia captured much of the funds, there is growing interest in Africa.

One of the interesting characteristics of several leading emerging-market private equity funds is their publicly stated commitment to pursue not only highly competitive financial returns, but also broader development goals. To date little empirical analysis has been undertaken on their actual impact on broader development goals, but this is an area that warrants more attention.

A few of the broader development contributions from three of the leading firms are summarized in Box 32. As one of them, **Emerging Capital Partners** (ECP) comments:

“Our portfolio companies have provided cell phones in Sierra Leone and Malawi, flights to Mali, employ thousands of rural workers in Chad and Congo Brazzaville, provide fertilizers to small Moroccan farms and construct affordable housing in Cameroon. The ECP team believes that the fund’s greatest impact on African development comes from proving that financial investors can achieve high returns in Africa in an honest, fully transparent manner.”¹⁶³

Another firm, **Actis**, states in its corporate mission statement ‘The Power of Positive Capital’:

“We are committed to promoting the sustainable growth of the private sector in emerging markets. Our aim is to ensure that the capital we raise and manage makes a lasting, tangible and positive difference in the countries in which we operate by creating opportunity for the companies in which we invest as well as their stakeholders. Our focus on responsible investment not only seeks to create long-term value for investee companies and investors, it simultaneously helps the private sector to deliver on its responsibility to make a positive contribution to society.”¹⁶⁴

In essence, many of these firms are the type of ‘Financial First Investors, with a floor for social and environmental impact’ described in Box 32. A few have grown out of social enterprises or socially responsible investors. There is also a blurring of lines between some of these emerging-market private equity firms and the ‘small and growing business’ intermediaries profiled in Box 31 – even if the former have more assets under management and are making larger investments in companies that have mostly grown beyond the small and medium size category. A number of these private equity firms have been established by former commercial bankers, who spent time working in developing countries. And, financial experts who have previously worked in development agencies or international financial institutions are leading others. They are a group of private financiers and development actors worth watching and enabling.

BOX 32: Combining business growth and development: The experience of three private equity leaders in Africa

The following examples offer snapshots of three private equity leaders in Africa and some of their African investments. In almost all cases they are providing the African companies in their portfolios with a combination of equity investments, management experience and skills, corporate governance advice, access to regional and global networks and cross-border expansion opportunities, and explicit requirements for ethical, social and environmental performance. They are helping to achieve local value creation, growth and competitiveness, but also supporting the development of local management capacity and the implementation of good governance, social and environmental standards. All of these are important foundations for poverty alleviation. In some cases, depending on the sector and companies in the portfolio, such as microfinance intermediaries, mobile phone operators or distributed energy providers, it is possible to point to direct services to the poor.

Actis: Initially part of the UK Government's CDC (Commonwealth Development Corporation), Actis was spun-out as an independent and privately controlled fund manager in 2004, with a dedicated focus on private equity, infrastructure and real estate investments in emerging markets. By the end of 2009, it had raised over US\$7.4 billion in funds, and was currently invested in over 70 emerging market companies, with its private equity portfolio returning an average of over 3 times invested equity to investors in the last 10 years. Some of its major success stories have also had a demonstrable impact on poverty alleviation in addition to creating impressive financial returns for investors. They include:

- **Celstel, now Zain:** As of 2010, the company operated 15 networks and served over 37 million customers across Africa bringing mobile telephony and all its benefits to some of the continent's poorest communities as well as its wealthiest. Celstel's founder Mo Ibrahim has moved on to become an internationally recognized philanthropist and advocate for better governance in Africa, including being the founder of the Mo Ibrahim Good Governance Index and Prize. And, Actis exited its Celstel investment in May 2005 in a trade sale at more than four times its initial investment.
- **Globeleq:** Established in 2002 on a platform of existing power assets, the company has combined impressive financial returns, with the spread of efficient operating systems, good corporate governance, health and safety standards and the generation of electricity in developing countries. In Tanzania, through its acquisition of Songas, it is supplying more reliable and lower cost electricity to thousands of households and businesses, and in Bangladesh it is now supplying nearly a third of the country's power. In 2007, Actis sold a large number of the company's assets returning US\$1 billion to investors and creating the foundation for future commitment to the infrastructure sector.

Aureos: Established in July 2001, Aureos is a private equity fund management company headquartered in Mauritius, which specializes in providing expansion and buy-out capital to unlisted mid-cap businesses across Africa, Asia and Latin America. As of the end of 2009, Aureos had some US\$1.2 billion under management in over 50 developing countries and 16 regional private equity funds – with plans to increase to US\$1.5 billion under management in 2010. Despite the economic downturn, during 2009 Aureos initiated the establishment of a US\$400million pan-Africa Fund (with over US\$300 million raised by year-end) and a Pan-Africa Healthcare Fund with committed capital of US\$75 million in first close. The firm's own investors include a combination of donor agencies and international finance institutions, commercial banks, pension funds, foundations and high net worth individuals. It aims to not only achieve Internal Rates of Return of 15% to 20% plus in dollars, but is also, "Insists that every portfolio company in which it invests complies with Aureos' Business Principles and Environmental and Social Management System", with a, "dedicated team of experts supporting the portfolio companies in achieving international standards for good business practices." One example is:

- **Uganda Microfinance Ltd (UML):** Established initially as a non-governmental organization in 1997, Uganda Microfinance Union (UMU), a US\$1 million debt and equity investment by the Aureos East Africa Fund enabled UMU to transition into UML in August 2005 – a fully-fledged and regulated for-profit micro-deposit taking institution. It offers savings and loans products to low-income clients, approximately half of whom are women, with a variety of informal collateral conditions a flexible repayment schedules. At the end of 2009, UML was serving xx customers with these microfinance services. Aureos is working with UML to improve internal management systems and controls, corporate governance and information technology and is building an experience base to expand its investment portfolio in other microfinance intermediaries elsewhere in Africa.

Emerging Capital Partners (ECP) ECP has been investing in Africa since 1999 and was the first private equity group to raise more than US\$1.6 billion for investment in companies across the continent. At the end of 2009 it had six private equity funds focused on Africa, investments in more than 40 African countries in all major regions of the continent, over 50 investments, 20 exits and a portfolio of remaining transactions. The company is explicit about its profit orientation with an eye to also achieving positive development impact. It states: "ECP's primary objective is to maximize shareholder value by achieving superior financial results. However, ECP also identified as ancillary goals the building of sustainable businesses, adopting 'best in industry' levels of corporate governance and transparency, contributing to sustainable development by attracting private capital to Africa and increasing private sector participation in African economies." ECP was also an early investor in Celstel. Two of the other African companies in its portfolio are:

- **MTN:** Launched in South Africa in 1994, just over a decade later the telecommunications provider MTN has core operations in 15 countries in Africa and 6 in the Middle East, with close to 100 million recorded subscribers. Over the past decade, ECP has supported MTN's expansion in a number of African countries from Cote d'Ivoire to Rwanda. At the same time that MTN has grown its business footprint in Africa and extended the reach and affordability of mobile services, it has gained a reputation as a leading corporate citizen on the continent, recognized by a number of national awards from most respected company, to preferred employer to best corporate tax payer in different African countries.
- **Ecobank:** Incorporated in Togo just over two decades ago, today EcoBank operates as a Pan-African Bank across 28 countries, with listings on several West African stock exchanges, over 140,000 shareholders, many of them African and some 11,000 employees. ECP's West Africa Growth Fund invested in Ecobank's efforts to expand its services to wholesale and retail customers. In recent years the bank has partnered with organizations such as ACCION to expand its services to small and micro-enterprises and in 2009, it partnered with USAID and Western Union to launch the Africa Diaspora Marketplace, which is aimed at attracting, funding and otherwise supporting business proposals from African diaspora wanting to support enterprises back in their home countries.

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4. Leveraging additional private finance for poverty alleviation

The previous sections outlined examples of private financiers that are delivering microfinance services to previously un-banked people, investing in small and growing businesses, and providing private equity, expertise and networks to enable larger business champions in developing countries to scale. There is potential to increase both the quantity and quality of private capital going to finance these three market segments, all of which are essential drivers of development and poverty alleviation.

There are other important ways in which private financiers can support key development goals. These include ongoing engagement in more traditional forms of development finance from trade and project finance, to servicing public sector financing needs. In addition, over recent years there have been innovative developments in several other areas of private financing for development and the creation of a variety of non-traditional funding partnerships. These have been aimed at either increasing the quantity of private funds going explicitly to support development goals and/or improving their quality, not only in terms of efficiency and return on investment, but also in terms of their social, environmental and governance performance. The following section summarizes three of these evolving approaches:

- Mobilizing individual donors and investors to support development
- Improving environmental, social and governance (ESG) performance of investments in developing countries
- Participating in global public funds and financing mechanisms.

(i) Mobilizing individual donors and investors to support development

Private financial institutions and funds can serve as an efficient and reliable mechanism for channeling money from wealthier individuals to people, organizations or projects in low-income communities. They can also help to raise public awareness about development issues and the opportunities that exist for individuals to make investments and donations in developing countries.

There are long-standing pioneers in this area. **Shorebank** International and the Calvert Foundation in the United States and Triodos Bank in Europe are all accredited financial institutions with a long tradition of offering their retail clients and depositors opportunities to invest in, donate to or otherwise support financial institutions and enterprises in developing countries. They have also played a leadership role in strengthening the capacity of developing country financial institutions and building the field of socially responsible investing.

Established in 1973, ShoreBank was the first community development and environmental banking corporation in the United States. It publicly reports its performance against a triple bottom line of financial performance, dollars invested in priority communities, minority-owned businesses, faith-based and nonprofit organizations, and dollars loaned to finance activities that contribute to healthier environments, what it calls 'conservation loans'. Nearly 5,000 individuals, corporations and nonprofit organizations place deposits in ShoreBank's financial institutions, including the ability to invest in Development Deposits and EcoDeposits, market-rate, federally insured bank deposits and accounts, which support the bank's loans to low-income communities and income generating conservation projects. In 1988, Shorebank International was established to provide consulting services to financial institutions, governments, foundations and

communities around the world working to improve financial inclusion in low-income economic environments. Among others, it played a role in advising Grameen Bank when it converted from a nonprofit organization to a bank. In 2003, ShoreCap International and ShoreCap Exchange were created to invest equity capital and provide capacity building support to financial institutions in Asia, Africa and Eastern Europe that deliver microfinance, small business finance and housing finance. The bank's depositors, investors and donors make this work possible.

The Calvert Foundation was incorporated in 1988 as an independent, nonprofit corporation and expanded its reach and mandate in 1995 with support from the Calvert Group and the Ford, McArthur and Mott Foundations. The Calvert Foundation describes its mission as follows:¹⁶⁵

“ To maximize the flow of capital to disadvantaged communities in order to create a more equitable and sustainable society. By creating innovative financial products and services, we have made it possible for everyday people, not just institutions, to participate in financial instruments that directly serve communities. It's a win-win. You can lift people out of poverty through an investment that also earns a financial return.”

As of mid-2010, Calvert Foundation had nearly US\$200 million invested in some 250 community organizations in all 50 US states and over 100 countries. Its portfolio includes affordable housing, microfinance, fair trade coffee, small business development and essential community facilities. Over 6,500 investors and supporters have helped it to finance about 25,000 cooperatives, social enterprises and community facilities in the United States internationally. The foundation offers individuals opportunities to make investments and donations through a variety of financial instruments ranging from Community Investment Notes, the first financial product of their kind when they were launched in 1995 to the Calvert Giving Fund, launched in 2001 as the first Socially Responsible and Community Investment Donor Advised Fund. In 2007, Calvert became the first security issuer on the eBay company MicroPlace, which connected individual investors to community investment online for the first time.

Founded in the Netherlands in 1980, **Triodos Bank** is a fully licensed independent bank and investment manager, owned by public shareholders and lending only to organizations and businesses with social and environmental objectives. It now also has branches and/or funds in Belgium, the United Kingdom, Spain, Luxembourg and Germany. The bank's shareholders, depositors and retail investment clients play a crucial role in enabling it to lend to socially and environmentally active businesses, nonprofit organizations, fair trade initiatives and what it terms as north-south cooperation. In 1995, for example, the Hivos-Triodos Fund was created in partnership with the Dutch donor organization Hivos. Depositors in Triodos Bank can open a North-South Account and the money funds the Hivos-Triodos Fund, which then invests in projects in developing countries, with security provided by private guarantors and Hivos. In 2002 the bank created the Fair Share Fund offering private individuals and institutions an opportunity to invest in microfinance institutions, and in 2008, it launched the Triodos Sustainable Trade Fund, which provides trade finance to certified organic and fair trade producers in developing countries and emerging markets. The bank has declared a modest dividend for its shareholders since 1985. Its retail customers are not only paid a return on their deposits or investments, but also have access to an online tool, launched

in the Netherlands and the UK in 2009, which enables them to obtain information on the organizations that Triodos has funded. Customers with savings accounts and deposits are also offered the opportunity to donate part of the interest they receive to charity. At the height of the global financial crisis, Triodos Bank won the Financial Times 2009 Sustainable Bank of the Year Award, beating some 165 entrants from 42 countries.

Learning from the work of these and other pioneers, a number of other private institutions and initiatives have started to mobilize development finance from the general public, often in partnership with existing banks or investment companies, non-governmental organizations and development agencies. These initiatives have catalyzed money from individual donors, investors and members of diaspora communities to fund a variety of development projects, and in some cases to fund specific communities and even specific micro-entrepreneurs. More traditional philanthropic programs that channel money from individual donors to support development projects, such as sponsoring children and disaster relief appeals are also becoming increasingly sophisticated and market-driven in their fund-raising and marketing efforts. Many are using information technology and social media platforms, including text messaging, to raise their profile, expand their reach, tailor their products, improve their accountability and dramatically increase both their efficiency and scale.

The Keystone initiative uses the term ‘online philanthropy markets’ or ‘online social investment markets’ or platforms to describe these new Internet enabled approaches.

In its 2008 report, *Online Philanthropy Markets: From ‘Feel-Good’ Giving to Effective Social Investing?* Keystone states,

“online philanthropy market is a term in progress. It describes an Internet phenomenon through which individual citizens and institutions can engage with citizen-led organizations and micro-entrepreneurs all over the world to invest their money, time or expertise to improve human and environmental wellbeing. Beyond this core purpose, the variety of goals, organizational permutations and ways of working is almost limitless.”¹⁶⁶

The report provides a useful summary of the following major online giving platforms: Beautiful Foundation; Bring Light; MyC4; CanadaHelps; Changing the Present; Charity Aid Foundation; Conexion Colombia; DonorEdge; DonorsChoose; Give2Asia; GiveIndia; GlobalGiving; Greater Good South Africa; HelpArgentina; Just Give; Justgiving; Kiva; MissionFish; Modest Needs; Network for Good; Social Stock Exchange; South African Social Investment Exchange; and Wildlife Direct. It outlines the following five key opportunities offered by these rapidly evolving platforms to mobilize more and better resources for development:

- They enable donors, whether individuals or institutions, to become investors in social change and development rather than providers of short-term relief;
- Recipients, whether NGOs, citizen groups or individuals, can use the combined power of multimedia, social networks and the Internet to communicate the contribution of their work and provide credible, accessible and engaging reporting to existing and potential donors and supporters;

- Organizations can reach and interact with donors and supporters far beyond their normal reach through Web 2.0 technologies and at a fraction of the cost that such engagement used to cost;
- Communities of interest can be built around specific ideas or causes with the potential to increase the amount of people engaged and resources mobilized and to transform one-off donations into long term relationships and mutual benefit;
- Donors can be linked directly to ultimate beneficiaries.¹⁶⁷

The Keystone report offers a cautionary note. It makes the point that, “more giving and more resources for development does not necessarily translate into more effective solutions to our social and environmental problems.”¹⁶⁸ In particular, it emphasizes the need for common approaches for measuring and reporting on impact and for greater sharing of information and performance data.

Box 33 provides six different examples of for-profit and non-profit private financial intermediaries that are raising and transferring funds, both philanthropy and investments, from individuals in wealthy countries and communities to meet a variety of development goals, such as enterprise development, health and education in developing countries and communities.

Box 33: Mobilizing individual donors and investors for development

Mobilizing on-line lending to micro-entrepreneurs: Kiva.org

Created in 2005, Kiva.org provides an online platform that enables internet lenders to connect with entrepreneurs around the world who are served by approved microfinance institutions. Kiva works through over 120 field partners located in over 50 countries. They range from well-established microfinance institutions to small community organizations. Information about each field partner is posted on Kiva's website, including their countries of operation, a risk rating, the length of time they have worked with Kiva, the total loans they have made, their delinquency and default rates, and their current fundraising status. The field partners identify entrepreneurs, vet their application, disburse the loans and collect payment. Profiles and photos of individual entrepreneurs are also posted on the website. Lenders select a field partner to support by using PayPal or credit cards. Once entrepreneurs repay the loans, lenders may lend to another entrepreneur, donate the funds back to Kiva or withdraw their funds. In addition to working through field partners, Kiva leverages over 40 corporate partnerships to achieve its mission. Paypal provides Kiva with access to technology, research, workplace solutions and employee volunteers, while Kiva utilizes PayPal payment solutions to transfer funds across the globe. In addition to a \$1 million grant, E&Y is also working with Kiva to improve transparency of its microlending process. Other business partners include Google, VISA, Chevron, Microsoft, Intel, Cisco, Sams Club, OliverWyman, Facebook, YouTube, MySpace, Moodys, Starbucks and AmericanExpress, among others. As of October 2010, Kiva had facilitated more than \$160 million in microloans, with a 98 percent repayment rate. Some 480,000 Kiva users had funded a loan and the average total amount loaned per Kiva lender (including reloaned funds) was about US\$ 214, with minimum loan amounts being US\$25 per lender. About 425,000 entrepreneurs had received a loan through Kiva, of whom about 80 percent were women.

Mobilizing private and institutional investors for development: responsAbility AG

Based in Switzerland, responsAbility Social Investments AG is a social investment company that uses investments to empower people at the base of the economic pyramid. It offers a range of investment options that enable private and institutional investors to invest in areas such as microfinance, small and medium business finance, fair trade, healthcare, education and independent media in developing and emerging economies. As a professionally managed investment firm, it aims to provide investors with a reasonable financial return while also enabling positive social development. responsAbility AG was founded in 2003, with initial capital of US\$5.6million. Its founding organizations and shareholders included: Bank Baumann & Cie, Banquiers, Credit Suisse, Raiffeisen Switzerland, Andromeda Fund B.V., the Swiss State Secretariat for Economic Affairs (SECO), Swiss Re, the Ethos and NEST collective foundations and the charity Swissaid, among others. By 2010, responsAbility was advising more than \$850 million in over 300 institutions in some 60 countries across its suite of funds. Through its Global Microfinance Fund, which was the first microfinance fund in Switzerland to be authorized for public sale in 2004, responsAbility has been one of the pioneers in building the field of microfinance investment. More broadly, responsAbility is active in the debate on private funding for development and in exploring methodologies for integrated public reporting on social and financial investment performance. A key feature of the responsAbility AG governance and business model is the collaboration between major Swiss private financial institutions and the Swiss government's development cooperation agencies. This is a model that could be replicated in other donor countries.

Mobilizing shareholders and investors for social business: danone.communities fund

Danone has been a pioneer in embedding social and environmental goals into its core business operations and creating funds, incentives and business units to build more inclusive and sustainable business models. It has also enabled individual and institutional investors to get engaged through the creation of the danone.communities fund. In 2006 it entered into a partnership with the Grameen Bank to launch Grameen Danone Foods, which has established a yogurt plant in Bangladesh to create local jobs and produce fortified yogurt that provides critical nutrients to children sold at affordable prices. In 2007, with the support of its shareholders, Danone launched the danone.communities fund. It is structured as a mutual fund managed and marketed independently by the Credit Agricole group, with the following mandate: to expand Grameen Danone Foods by building additional plants in Bangladesh; to finance other social businesses that benefit consumers at the base of the pyramid – specifically those that support Danone's vision of "bringing health through food to a majority of people"; to use these innovative business models to partner with local stakeholders and NGOs, combining their know-how with Danone's; and to build a community of investors and other partners committed to achieving social progress through investment and market-based approaches. In 2009, the fund made investments in Laiterie du Berger, a small business in Senegal that collects and processes milk from some 600 Peul herders, supplying fresh milk and products to local consumers; and 1001 Fontaines in Cambodia, an association co-founded with Francois Jacquenoud to treat, bottle and distribute clean water to up to 80,000 people. In 2009, a large majority of Danone's shareholders approved the creation of a new 100 million Euro fund, the Danone Ecosystem Fund, which will support projects to create sustainable jobs in the company's ecosystem among agricultural producers, suppliers, distributors and regions around the company's plants and facilities.

Box 33: Mobilizing individual donors and investors for development continued

Mobilizing private investors to buy ‘vaccine bonds’: HSBC and Daiwa supporting GAVI

Vaccine Bonds enable individual and institutional investors to invest in government-backed instruments with the proceeds going to purchase vaccines to immunize children in poor countries against preventable and life-threatening diseases. The International Finance Facility for Immunization, IFFIm, operates as a funding partner for the GAVI Alliance. It is a multi-laterally supported institution, with the World Bank serving as its financial adviser and treasury manager, and registered as a UK-based charity. It issues bonds (with maturity ranging from 2 to 20 years) and delivers the capital to GAVI to invest in immunization stock and delivery. Money raised by IFFIm bonds enables GAVI to purchase vaccines, and strengthen delivery chains by rehabilitating health clinics, training health workers, improving cold chains needed to store vaccines, and paying local health workers to administer the vaccines. The bonds are backed by governments such as the UK, France, Norway, Spain, Italy, Sweden and South Africa, and have a Triple-A rating. In November 2006, IFFIm issued the first US\$1 billion in bonds to institutional investors, with Goldman Sachs and Deutsche Bank as the lead managers of the offering, which was fully subscribed within a day. In 2008, Hong Kong Shanghai Bank (HSBC) and Daiwa Securities Group led public offers in the United Kingdom and Japan respectively, which enabled individual or retail investors in these two countries to purchase ‘vaccine bonds’, as well as institutional investors. HSBC, for example, had a limited period offer for retail investors to invest in The Vaccine Investment Plan and Vaccine Investment ISA, which provided a fixed return with a tax-efficient option, while also supporting a humanitarian cause. According to GAVI, every 1,000 British pounds invested in these vaccine bonds helped to immunize some 130 children against five life-threatening diseases. Funds raised via IFFIm will help protect more than 500 million children over the coming decade – saving an estimated 10 million lives over time.

Mobilizing travelers to support UNITAID: MassiveGood

MassiveGood was launched in 2010 to raise voluntary micro-contributions in the range of US\$2 from individuals when they are making travel-related purchases. Created by the Millennium Foundation for Innovative Finance for Health in partnership with leaders in the global travel and tourism industry, the initiative enables individual travelers to help fight HIV/AIDS, TB and malaria and to improve maternal health and reduce child mortality. They can do so by making a simple online micro-donation every time they buy a plane ticket, reserve a hotel room or rent a car. In addition, the technology-enabled platform helps to raise awareness and provides a social network that helps travelers to connect with each other. The micro-contributions go to UNITAID, which is funded primarily through a levy on air tickets and contributions from 29 governments and the Bill & Melinda Gates Foundation. UNITAID then channels funds to partners such as UNICEF, the Clinton Foundation and the World Health Organization that are delivering essential treatments, diagnostics and health services in over 90 countries. The potential is enormous, with an estimated 2 billion air passengers every year, plus millions of hotel bookings and care rentals. MassiveGood is strongly supported by the Global Distribution Systems that manage airline reservation networks, leading travel management companies such as American Express Travel, Carlson Wagonlit and BCD Travel and online booking tools. Facebook, YouTube and Twitter also provide platforms to inform travelers about MassiveGood. In June 2010, MassiveGood partnered with the Global Business Coalition on HIV/AIDS, TB and Malaria to launch MassiveGood Corporate. Companies will be able to use their travel management systems to set up accounts – both through online tool and offline travel agents – that will give them the choice of making contributions themselves, enabling their employees to do so every time they travel, or both.

Mobilizing bank customers to select social projects: Caja Navarra (CAN)

Caja Navarra (CAN) is a Spanish-based savings bank, established in its current form in 2000. In 2004 it introduced a business model that it describes as ‘civic banking’, which enables the bank’s customers to play a key role in determining how their savings are invested, selecting what local and global social projects are supported by the bank and getting actively engaged in volunteering and community activities through the bank’s branches and communications platforms. The model is called “You Choose: You Decide” and aims to empower what it calls its ‘citizen customers’ in a number of innovative ways. All customers have Civic Accounts and can direct 30 percent of the profit that the bank has made from them each year to social projects either identified by the bank or of their own choice. A number of these projects are in developing countries such as Madagascar and the Democratic Republic of the Congo. In 2009, some 90 percent of the bank’s customers chose a project. The bank hosts and funds meeting points in selected cities and Banca Civica Networks that bring together its customers with social organizations both physically and online. Its branches are increasingly becoming community centers where customers not only conduct banking business, but can also socialize. Customers are informed about and participate in the process that tracks where their money is invested and have some say in determining the bonuses of the bank’s executives. In 2009, the bank gained some 48,000 new customers, entered into a merger agreement with several other leading savings banks in Spain, and started to expand internationally, initially to the United States and with plans for other countries.

Source: Company and partner materials

(ii) Improving environmental, social and governance (ESG) performance of financial institutions

As has been the case in the corporate sector more generally, large financial institutions are facing pressure from a variety of stakeholders and at the same time recognizing business opportunities to improve and publicly report on the social, environmental and governance (ESG) performance of their core business. This includes their banking, investment, insurance and advisory activities in developing countries. As the IFC has noted:

“Sustainability is now increasingly recognized as central to the growth of emerging market economies. For the private sector, this represents both a demand for greater social and environmental responsibility as well as a new landscape of business opportunity. The financial sector has been slow to respond to this trend but is now emerging as an important driver across all sectors in an economy.”¹⁶⁹

Given the vital intermediation role that financial institutions play in any economy, their ability to drive improved social, environmental and governance performance through their clients is enormous. Stakeholder engagement on sustainable finance in developing economies has focused on four main areas. First, have been demands for more responsible financial standards and better social and environmental risk management across asset classes, especially in fragile states or countries with weak governance. Second, has been encouragement and growing opportunities for financial institutions already operating in or head-quartered in developing countries to innovate in order to be more inclusive in terms of serving the poor and/or more green in terms of funding environmentally sustainable projects and clean technologies. Third, have been calls for financial institutions that are not investing in developing countries, especially pension funds and other institutional investors, to become more active in the area of development finance. And fourth, there has been a growing focus on how private sector players can help to improve the enabling environment and build financial infrastructure to promote sustainability in developing countries. Examples of private financial institutions that have played a leadership role in these areas have been provided throughout this section. A few additional examples are illustrated in the following pages.

Implementing more responsible ESG standards: There have been growing demands over the past decade for private financial institutions to mitigate the negative impacts that their activities might have on local communities, livelihoods, human rights and the environment in developing countries. Areas of concern have included the financing of natural resource extraction and major infrastructure projects such as dams, pipelines and roads and the role of private financial institutions in facilitating conflict, corruption and money laundering and the transfer of public funds to private bank accounts in other countries. A growing number of banks, insurers and institutional investors, including those with head-quarters in developing countries have started to implement policies, management systems and public reporting in these areas and in some cases in the area of human rights. These are complex and usually systemic challenges where collaborative action has been particularly important in terms of achieving scale, leveling the playing field and tackling the problem of ‘free-riders’.

A number of multi-stakeholder initiatives have been developed to promote voluntary standards in development-focused finance. Intergovernmental institutions have convened some of the major

initiatives, although leadership on the part of the financial institutions has been crucial to their establishment and implementation. Some of them are focused only on the financial sector and targeted at a particular financing challenge. **The Equator Principles**, for example, are a set of voluntary standards for project finance based on the social and environmental performance standards of the International Finance Corporation. Launched in 2003 by ten banks, they have now been adopted by more than 60 banks, which between them account for an estimated 80 percent of project finance in developing countries. In less than a decade they have become a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. **The Wolfsberg Principles** have been established by eleven of the world's largest international private banks to tackle money laundering. **The UNEP Finance Initiative** convened by the United Nations Environment Programme works with some 200 banks, insurers and investment institutions to promote environmentally sustainable practices. And the **UN Principles for Responsible Investment**, backed by the UN Global Compact and UNEP, have been developed and supported by a network of international investors, most with activities in developing countries. As of October 2010 over 800 investment institutions from 45 countries had become signatories.

There are also initiatives focused on promoting responsible standards in other industry sectors that have a major impact on development and poverty alleviation, in which financial institutions are playing an active leadership role. Examples include the Extractive Industries Transparency Initiative, the Roundtable on Sustainable Palm Oil and the Pharma Futures project.

Innovating to deliver more inclusive and sustainable finance: As illustrated earlier in this section, pioneering financial institutions such as ShoreBank, Triodos and Calvert, have a longstanding record in this area, including some activities in developing countries. Equally, a small but growing number of banks and other financial institutions based in developing countries have pioneered product, process and business model innovations in inclusive and sustainable finance. Some of the emerging market banks that have been nominated for the annual IFC and Financial Times Sustainable Banking Awards are profiled in Box 34. Five areas of opportunity that have been identified by the IFC are the financing of energy efficiency and renewable energy, cleaner production, biodiversity conservation and banking services to low-income and under-served groups. Examples of these opportunities are illustrated in the table on page 196. As outlined earlier in the report, the convergence of communications technology and financial services has been particularly important in fundamentally changing the economics of what is possible in terms of more inclusive banking. The emerging area of carbon finance and its links with development finance is outlined briefly in the next section.

Increasing socially responsible investment directed at emerging markets: The vast majority of funds under management through socially responsible investment options are invested in developed economies. A small percentage of these funds are starting to move into emerging markets driven in large part by growing investment opportunities in these markets generally. Several NGOs and foundations in Europe and the United States are partnering with fund managers to encourage this trend and to raise awareness on the opportunities to achieve investment returns in these markets while also delivering positive development outcomes. The rapidly evolving field of impact investing and the work of the **Global Impact Investing Network** is helping to drive momentum.

In September 2010, the Rockefeller, Cordes and Calvert Foundations, together with Giving Assets created the “Global Impact 50”. Launched at the Clinton Global Initiative, this will be the first ever index of the top 50 impact investment fund managers that deliver social and environmental value in addition to financial returns, including in the areas of microfinance, community development and fair trade. The index will provide information to investors and their financial advisors on leading fund managers in the field covering their social and financial performance, their investment strategies and areas where capital is invested. The overall aim is to build the market for impact investment capital, at least some of which will be invested in developing countries.

In the UK, Oxfam partnered with Insight Investment in 2008 to launch a joint project called “Better Returns in a Better World”, which aims to raise awareness of the contribution that institutional investors could make to poverty alleviation in developing countries. The project considers the potential contribution of investors in three areas: as allocators of capital; as influences on the policies and practices of the companies they invest in (especially transnational companies which operate in developing countries); and as influencers of public policy.

Helping to build financial infrastructure for sustainability: Private financial institutions can support better ESG performance in developing countries by helping to strengthen corporate governance and financial regulations. They can also help to build the financial infrastructure that is needed to drive more inclusive and sustainable markets such as stock exchange indices, capacity building facilities, investment funds and rating agencies. The examples of the Socially Responsible Investment Index on the Johannesburg Stock Exchange and the Bovespa Corporate Sustainability Index in Brazil are profiled in Part Three of the report. A number of the banks, investors and microfinance intermediaries profiled in this report have also been active in helping to establish rating agencies and industry standards for SME finance and microfinance in developing countries. Participants in the UNEP Finance Initiative have been active in promoting sustainability banking in Africa through conferences and workshops, provision of tools and the development of funds and capacity-building facilities.

One example of such leadership has been the launch of the African Carbon Asset Development (ACAD) facility in 2009 through a partnership between Standard Bank, UNEP and the German Federal Ministry of the Environment (BMU) to catalyze carbon finance markets in Africa. ACAD is providing grant funding and technical assistance to build the necessary knowledge and skills and to help cut transaction costs for African companies to access carbon markets and credits. It is also delivering training on carbon finance for African-based financial institutions. In 2010, ACAD funded seven projects in Kenya, South Africa, Nigeria, Mozambique, and Rwanda. They included energy production from biomass and waste gas, LED-powered lighting, waste collection and composting, wind power, hydro power, and conversion to cleaner energy in manufacturing – helping both to develop low-carbon businesses while also creating jobs. Such a facility, with a private sector financial institution providing a secretariat, identifying and generating deal flow and disbursing funds and with public donors providing funding and technical assistance could be used in numerous other locations and to address other development and sustainability issues.

Banking products and financing mechanisms that promote social and environmental sustainability: Examples researched by the International Finance Corporation

OPPORTUNITIES	ENERGY EFFICIENCY	RENEWABLE ENERGY	CLEANER PRODUCTION	BIODIVERSITY CONSERVATION	SUPPORTING UNDERSERVED SOCIAL GROUPS	EXAMPLES
PRODUCTS AND SERVICES ON THE DEPOSITORS' SIDE						
				✓	✓	"Environmental" affinity credit cards and savings accounts; social and environmental investment funds. These products are usually targeted to specific environmentally/socially sustainable aspects or areas
PRODUCTS AND SERVICES ON THE BORROWERS' SIDE						
LOANS with a sustainability focus	✓	✓	✓	✓	✓	Loans to promote sustainable energy, energy efficiency, or biodiversity conservation, or to finance sustainable supply chain management.
LEASING with a sustainability focus	✓	✓	✓			Leasing for sustainable projects, such as for equipment that is energy-efficient or is used to generate renewable energy (solar panels, micro hydro turbines).
CARBON FINANCE	✓	✓	✓			Projects in various areas, such as promoting renewable energy to displace fossil fuels; switching from fuels with high to low GHG intensity, which reduce green house gas emissions.
MICROCREDIT					✓	Micro loans or micro leasing to under-privileged groups (such as indigenous women, people in rural areas); banks can cooperate with NGOs and microfinance organizations to channel resources to these areas more effectively.
HOUSING FINANCE	✓				✓	Affordable housing programs; "green" mortgages that provide financing to build or renovate homes in a way that increases efficiency of energy use; mortgages to small businesses or individual entrepreneurs.
SUSTAINABLE SUPPLY CHAIN FINANCE			✓	✓		Financing buyers of or suppliers of various products (coffee, timber, non-timber forest products) at different stages in the supply chain (including SMEs) to facilitate more sustainable practices in agriculture, forestry, and other sectors, and to protect biodiversity
SECURITIZATION IN SUSTAINABLE AREAS		✓		✓		Securitization of projects that are low-profit allows banks to cover previously uninsurable risks using the capital market (alternative risk financing) or to bring forward future cash flows (asset-backed securitization).
ENVIRONMENTAL/SOCIAL LIABILITY INSURANCE	✓	✓	✓	✓		Insurance coverage for certain types of social and environmental liabilities/damage.
ADVISORY SERVICES	✓	✓	✓	✓	✓	Strengthening organizational capacity of bank's clients and governments to meet their needs for information and knowledge related to social and environmental sustainability. This is particularly important for SMEs.
COMMUNITY PROGRAMS				✓	✓	Charitable donations; cultural and social funds to support children, education, sports, environmental protection, and the like.

Source: Koskelo, Jyrki I. and Kyte, Rachel. *Banking on Sustainability: Financing Environmental and Social Opportunities in Emerging Markets*, IFC, table adapted from Jeucken (2001).

Box 34: Leading emerging markets sustainable banks

Examples researched by the International Finance Corporation

Created in 2005, the **Financial Times Sustainable Banking Awards**, in partnership with the **IFC**, recognize banks and other financial institutions that have shown leadership and innovation in integrating environmental, social and governance considerations into their business. Over the past five years the following are examples of emerging markets banks that have been nominated at least two times and have either won or been runners-up and regional winners of the 'Emerging Markets Sustainable Bank of the Year' award.

Nedbank, South Africa – One of the four largest banking groups in South Africa, Nedbank was the first African adopter of the Equator Principles for managing social and environmental risks in project management. It has partnered with the Worldwide Wildlife Fund (WWF) in South Africa to develop sector specific environmental and social guidelines for the provision of finance and was the first South African bank to commit to achieving carbon neutrality. The bank also offers a range of inclusive banking products for low-income and underserved markets.

Equity Bank, Kenya – Equity Bank has become Kenya's largest bank by number of accounts (close to 4 million account holders) and in the top three by market capitalization. It has harnessed information technology and an innovative hybrid business model that has enabled it to combine characteristics of a microfinance intermediary and a commercial bank capable of delivering commercially viable, but affordable and accessible banking services to the previously unbanked. The bank has also integrated social and environmental criteria into its corporate strategy and training programs and supports financial literacy training and education.

Access Bank, Nigeria – In addition to implementing environmental criteria into its lending business, Access Bank has developed a comprehensive Gender Empowerment Program aimed at providing financial services and technical assistance to women entrepreneurs in Nigeria. Since 2006 it has partnered with the Nigerian Stock Exchange on a national essay competition aimed at improving financial literacy among youth. The bank has established a cross-functional corporate responsibility committee drawing from the heads of its business units and major functions, and appointed an independent external adviser as part of its social and environmental governance and public reporting process.

Itaú Unibanco, Brazil – Itaú Unibanco has played a leadership role both globally and in Brazil in implementing and promoting the Equator Principles, the Carbon Disclosure Project, the Brazilian Green House Gas Protocol Program and the Principles for Responsible Investment. In 2002, it was one of the first Brazilian banks to implement a social and environmental risk management system and to publicly disclose information on its sustainability performance. It has developed an eight point Sustainability commitment that sets out priorities for guiding the bank's business operations and interaction with clients. It has established a microfinance program, operates a social investment fund and offers its retail customers the opportunity to purchase environmental credit cards, which channel part of the annual fee and a small percentage of charged purchases to support environmental NGOs.

Banco Real, Brazil – Banco Santander, Brazil: Having purchased the former Banco Real, an established leader in sustainability banking, Banco Santander has become one of the largest private banks in Brazil. In 2009 it made sustainability a core driver of its future growth strategy and operating practices. Sustainability extends across the bank's risk management system to the provision of a variety of social and environmental banking products and services to institutional, commercial and retail clients. Some 37,000 bank employees in the retail area have undergone training on sustainable banking and the bank has also been a leader in SME lending, internet banking and support for international sustainability guidelines and standards.

Industrial Development Bank of Turkey (TSKB): Established in 1950, TSKB has been a player in different stages of Turkey's economic development and is now a leader in incorporating environmental and social criteria into its management systems, corporate culture and banking services. The bank is the largest lender in the country in the area of environmental and renewable energy loans. It was the first Turkish bank to be certified with the ISO-14001 environmental management system standard, the first to publicly commit to becoming carbon neutral and the first to produce a public sustainability report based on international reporting guidelines.

Box 34: Leading emerging markets sustainable banks continued

Industrial Bank, China – Industrial Bank was founded in Fujian Province in 1988 as one of the first joint-stock commercial banks approved by the State Council and People’s Bank of China. It has made a commitment to sustainability part of its core value proposition and a key element of its future growth strategy. The bank has implemented a social and environmental risk management system and offers financial products and services to companies that focus on delivering solutions to sustainability challenges in China. This includes finance for environmentally efficient buildings and homes, as well as other commercial lending.

ACLEDA Bank, Cambodia – The Association of Cambodian Local Economic Development Agencies (ACLEDA) was established in 1993 as an NGO to deliver microfinance to refugees. In 2003, with support from the IFC, it was re-licensed as a commercial bank and has become one of the country’s largest lenders and banking networks. In addition to the IFC, the bank’s owners include the Triodos Fair Share Fund and Dutch development bank FMO, as well as Cambodian shareholders, including bank staff. It has also implemented an environmental and social risk management system.

YES Bank, India – YES Bank is a commercial bank that has established specialized business units to deliver social and environmentally targeted banking products and services, with a focus on what it terms the ‘Future Industries of India’. It has a unit focused on agribusiness, rural and social banking, which works with partners to overcome ‘last mile challenges’ in delivering rural financial services, including insurance. It has a dedicated sustainable investment banking unit that provides investment advisory services to social and alternative energy ventures and was the first Indian signatory to the Carbon Disclosure Project. The bank has partnered with ACCION to establish a microfinance program. And it engages its clients and other stakeholders in community development and philanthropy programs working with local NGOs .

BRAC Bank, Bangladesh – Building on the experience and lessons of BRAC, one of the world’s pioneers in microfinance, BRAC Bank Limited (BBL) was established in 2001 with a focus on delivering financial services to small and medium enterprises. Its shareholders include BRAC, ShoreCap International and IFC. The bank has a variety of initiatives in renewable energy and waste management, support for women entrepreneurs, agricultural SME finance and programs to provide both financial literacy training but also health, safety and environment training to SME clients. It has become one of the fastest growing banks in Bangladesh and the largest lender to SMEs through a variety of branches, local access points and a growing internet-banking business. The bank is one of the 11 founder members of the Global Alliance for Banking on Values.

Source: Company materials and submissions to the FT Sustainable Banking Awards

(iii) Participating in global funds and financing mechanisms

Over recent decades, especially since the International Conference on Financing for Development in 2002, there has been growing interest in exploring the role of private financial institutions, large corporations and private foundations in working with governments to design and finance global funds and innovative financing mechanisms for the provision of certain global public goods. The World Bank offers the following definition: “Global public goods are aspects of development that reach across borders: examples include the environment, public health, and international trade and financial infrastructure. Actions are often needed that extend beyond what market systems or individual countries can do on their own – developing new vaccines, for instance, and reducing carbon emissions.”¹⁷⁰

Global public goods cover a spectrum of resources, services and systems of rules and policy regimes. These range from the stability of the international financial system and international trade, to efforts to control international drug trafficking, crime syndicates and terrorism, to tackling the spread of infectious diseases, protecting essential ecosystem services and addressing global climate change. As Kemal Dervi and Sarah Puritz Milsom from Brookings note, “In all these cases there is the need to finance capacity building, infrastructure, knowledge and equipment that facilitates the provision of these ‘global public goods’. Because of the externalities involved, with the benefits accruing to all, even if the public good is financed by one or a few countries, there are difficult collective action problems affecting the provision of global public goods. ... There is, therefore, an issue of reasonable burden sharing that must be solved, for effective action to take place. The burden sharing challenge tends to affect the relations between advanced and developing countries, as well as the relations within each of these broad groups.”¹⁷¹

The responsibility for financing and providing global public goods clearly rests with governments and debates around burden sharing are at the heart of the global governance process. At the same time, there is growing recognition of the need to engage the private sector and in certain cases implement market-based mechanisms to develop innovative new sources of financing for certain global public goods. This has particularly been the case in the areas of financing certain ecosystem services, addressing global health challenges and tackling climate change.

As the World Business Council for Sustainable Development and the World Economic Forum have summarized in the case of addressing global financing gaps to help developing countries adapt to climate change, “Even under the most optimistic scenario of donor commitments, public funds will be nowhere near sufficient to meet the investment requirements of a successful international climate change strategy. The new framework must create mechanisms that catalyze much greater volumes of portfolio and direct private sector investment in climate change-related activities.”¹⁷²

Over the past two decades governments have created a variety of global funds ranging from the Global Environment Facility and Global Crop Diversity Trust to the Global Fund to Fight HIV/AIDS, TB and Malaria and the GAVI Alliance to a number of carbon funds including recent agreement on the establishment of a Global Green Climate Fund. In all cases the focus has been on mobilizing additional, mostly public financial resources and supporting relevant technology

transfers, capacity building and systems strengthening in developing countries. Although the quantity and variety of private sector resources in these funds has been low compared to public resources, there are examples where corporations and private financial institutions, in addition to private foundations, have either made direct contributions as corporate global citizens or have helped to design or implement market-based mechanisms to catalyze additional private resources – either financial resources or relevant products and technologies.

A number of recent public and private initiatives and task forces such as the Taskforce on Innovative International Financing for Health Systems established in 2008, the Millennium Foundation for Innovative Finance for Health created in 2008, and the UN Secretary-General’s High-Level Advisory Group on Climate Change Financing which reported in 2010, all point to the potential of market-based solutions and incentives to catalyze additional private sector capital flows and contributions.¹⁷³

The following table illustrates some of the global financing mechanisms that have been developed to support global health research, development and delivery. Private foundations, financial institutions and in some cases corporations have played a role in many of these examples. Box 35 provides brief vignettes of three diverse global funds that have been supported by private sector financial contributions over the past decade. Mobilizing private financial support for global funds and innovative financing mechanisms to address global challenges is an area that warrants ongoing dialogue and analysis.

Innovative mechanisms to support global health and R&D

	MECHANISM	PURPOSE	FUNDING SOURCE	EXAMPLES
Recent health financing innovations	International health funds	Facilitate access to available treatments for neglected diseases in low- and middle-income countries	Donor governments, foundations, private donations, IFFIm	GAVI Alliance; Global Fund to Fight AIDS, Tuberculosis and Malaria
	Product-development partnerships	Develop products for diseases that disproportionately affect low- and middle-income countries through partnerships with academia and industry	Donor governments, foundations, private donations	Aeras; IAVI; PATH; Malaria Vaccine Initiative
	International finance facility	Generate revenue for immunization programs and improved health systems in resource-limited countries	Bondholders with government and philanthropic backing	IFFIm
	Advance market commitment	Incentivize industry investment in vaccines for neglected diseases	Donor governments, foundations	Pneumococcal AMC
	UNITAID	Increase access to treatments for HIV and AIDS, TB and malaria in low- and middle-income countries governments	Consumers (through an airline tax), donor	Chile, Côte d’Ivoire, France, Republic of Korea, Madagascar, Mauritius, Niger

Source: Adapted from *Innovative Financing Mechanisms to Advance Global health: past, present and Future Investments*. IAVI Insights. Policy Brief 21, June 2009.

Box 35: Examples of private contributions to donor-led global funds

The Global Fund to Fight HIV/AIDs, TB and Malaria

The Global Fund was created in 2002 to scale and accelerate the flow of financial resources to large-scale programs that are providing prevention, treatment and care services for people living with HIV/AIDs, TB and malaria in low – and middle-income countries. As of March 2010, it had approved US\$19.3 billion worth of grants to programs in 144 countries. The Global Fund estimates that by the end of 2009, nearly 5 million lives had been saved by through the programs it supports. The majority of the Fund's resources come from governments and the Bill & Melinda Gates Foundation, but since 2004 it has started to work more with the private sector. The Global Fund identifies four main ways that business and other private organizations can partner with it: making monetary or in-kind contributions; supporting implementation and projects on-the-ground; providing commercial goods and services on a socially responsible basis; and serving as a public advocate and contributor to good governance. The largest amount of funds to-date has been raised by Product (RED) and its partner companies, some US\$150 million by mid-2010, as profiled on page 86. Another key private funder has been Chevron, which became the inaugural Global Fund Corporate Champion in 2008, with an initial commitment of US\$30 million over three years in six Asian and African companies, together with implementation support. Other private sector partners include Standard Bank, Takeda Pharmaceutical Company, MAC AIDS Fund, Idol Gives Back, Comic Relief and United Against Malaria.

The Community Development Carbon Fund (CDCF)

The World Bank Group manages a portfolio of some 12 Carbon Funds and Facilities. CDCF is differentiated from the others by its explicit focus on the generation of community benefits in the projects that it funds. It was launched in 2003 with a focus on promoting a co-benefits approach that links carbon finance to tangible poverty reduction outcomes. Specifically it funds small community projects in poorer parts of the developing world that combine investment in clean energy, with job creation and access to essential services such as electricity, clean water and health. CDCF is structured as a multi-donor Trust Fund – and is a public/private partnership. Nine governments and 16 private sector companies from Europe and Japan participated in the first tranche, for a total capitalization of US\$128.6 million. The Norwegian energy company Statoil, for example, contributed US\$12.5 million, alongside 15 other European and Japanese companies in the energy, oil, electricity, steel, chemical and financial sectors. The other private funders include Swiss Re, BASF, FujiFilm, Daiwa, ENDESA, edp, gasNatural, Gotberg Energi AB, hc energia, idemitsu, Nippon Oil, Okinawa Electric Power Company, Rautaruukki, and Statkraft Carbon Invest AS. As of late 2010, CDCF had committed 49 percent of its funds to buy emission reductions from small-scale projects in Africa, Asia and the Pacific. By developing small-scale methodologies for CDM projects and collaborating with local intermediaries such as microfinance institutions, NGOs and small enterprises, CDCF aims to demonstrate how carbon finance can be applied to low-income communities.

The Global Crop Diversity Trust – This public-private trust fund was founded by the UN Food and Agricultural organization (FAO) and Biodiversity International, acting on behalf of the Consultative Group on International Agricultural Research (CGIAR). Hosted in Rome by FAO, it aims to secure long-term funding for the support of gene banks and crop diversity collections in strategic locations around the world. As the Trust argues, genetic diversity of crops is essential not only in tackling hunger, poverty and food insecurity, but is also, "...on the front line in adapting agriculture to climate change. It is through the use of this diversity that we will be able to breed crops that are better able to withstand the effects of higher temperatures, more prolonged droughts, water-logging, stronger winds and other extreme events." Although a number of agribusiness companies are engaged in efforts to develop and disseminate new seed varieties in their own value chains, until recently there was no secure funding on a global basis to support most of the world's 1,500 gene banks. Launched in 2004, the Trust aims to solve this problem by creating a \$260 million endowment, the interest of which will be used for this purpose. To date, in addition to funds from 19 donor and developing country governments, the Trust has been financially supported by grants from ten private foundations (most notably US\$29.9 million from the Bill & Melinda Gates Foundation), three corporations (Syngenta, DuPont and the Grains Research and Development Corporation) and several international organizations. The trust is focusing on the crops identified by the International Treaty on Plant Genetic Resources for Food and Agriculture, as being the most important for food security and interdependence.



PART THREE



Other Actors Enabling Inclusive Business and Markets

Other actors play a crucial role in building more inclusive and sustainable markets and encouraging private sector investment and innovation in these markets. Their role is especially important in helping to overcome the organizational, market development and governance barriers that impede the poor from engaging directly and fairly in formal markets and that make it too costly or risky for private enterprises to serve these markets. From improving the enabling environment and coordinating interventions along specific value chains to working directly with private sector enterprises and the poor, other actors can help to both start and scale more inclusive and sustainable business models. The following section looks briefly at the role of these other actors.

I. HELPING TO OVERCOME BARRIERS

II. GOVERNMENTS

III. BILATERAL AND MULTILATERAL DONORS AND FINANCIAL INSTITUTIONS

IV. PHILANTHROPIC FOUNDATIONS

V. NON-GOVERNMENTAL ORGANIZATIONS

VI. ACADEMIC AND RESEARCH INSTITUTIONS



Business cannot stand alone. Businesses with governments, civil society and the poor can build the foundations for new markets. Governments must unleash the power of business by improving market conditions where poor people live and removing barriers to their economic participation. Not-for-profit organizations, public service providers, microfinance institutions and others already working with the poor can collaborate and pool resources with businesses to help seize opportunities. Donors can facilitate dialogues between businesses, governments or other partners. Socially minded investors and philanthropists can supply the funds to make these time-intensive and uncertain ventures possible. Business models that include the poor require broad support, but they offer gains for all.

Kemal Dervis

Director of the Global Economy and Development Program,
Brookings Former Administrator, UNDP
Creating Value for All: Strategies for Doing Business with the Poor
UNDP, 2008¹



I. HELPING TO OVERCOME BARRIERS

Other actors, governments in particular, play a crucial role in building more inclusive and sustainable markets and encouraging private sector investment and innovation in these markets. Their role is especially important in helping to overcome the organizational, market development and governance barriers that impede the poor from engaging directly and fairly in formal markets and that make it too costly or risky for private sector companies, entrepreneurs and financiers to serve these markets. They can increase the economic viability, the political legitimacy and the social acceptance of inclusive business models and value chains, thereby making them more effective and scalable.

There is enormous variety and contextual differences in the roles that different actors can play. Four broad types of intervention that have relevance for most development actors, and that can make a particularly important contribution in overcoming barriers to more inclusive and sustainable market-based approaches include the following:

- 1. Working directly with the poor to enhance their capacity and voice as producers, employees and consumers**
- 2. Working directly with private sector companies, entrepreneurs and financiers to start and scale inclusive business models**
- 3. Convening and coordinating private enterprises and other development actors at scale**
- 4. Improving the broader enabling environment for more inclusive private sector development.**

I. HELPING TO OVERCOME BARRIERS

1. Working directly with the poor to enhance their capacity and voice as producers, employees and consumers

Governments, development agencies, foundations, trade unions, and other civil society organizations can work directly with the poor to enable them to become more organized and better equipped as formal sector economic actors, both individually and collectively. They can undertake a variety of interventions or projects that make it easier for a specific group of low-income producers, consumers or employees to engage in a particular market or value chain in a manner that protects their rights while also expanding their opportunity and access. Undertaking more rigorous research and analysis on the poor as economic actors and on their needs, aspirations, capacities, constraints and resource management strategies is another area where other actors are starting to play a vital role.

Interventions to support low-income producers include helping to establish and strengthen producer associations, cooperatives and other aggregator models to strengthen their economic effectiveness and bargaining power and their political voice. Interventions can also include the provision of market-oriented microfinance and small business financing, technology, infrastructure, market information and other business development services, technical assistance, agricultural productivity inputs and extension services for small and micro-enterprises and smallholder farmers.

Public health messages and targeted consumer awareness campaigns relating to key health and education services and financial literacy initiatives can help low-income consumers in assessing the relative costs and benefits of essential products and services provided by private enterprises and making well informed purchase decisions. Consumer financing mechanisms, remittances, and conditional cash transfer programs can also help low-income consumers overcome the 'poverty penalty' related to accessing certain essential products and services, especially in the areas of education and health.

Programs providing vocational training and workforce development opportunities that meet labor market needs in clearly identified industries can empower the poor as potential employees in the formal sector. Global framework agreements with trade unions and initiatives to build the capacity of factory and farm managers and workers can also help to improve working conditions and labor standards for low-income workers.

2. Working directly with private sector companies, entrepreneurs and financiers to start and scale inclusive business models

Governments, development agencies, foundations, trade unions and other civil society organizations can work directly with individual private sector enterprises or with groups of private enterprises and business associations to help kick-start and facilitate their engagement in inclusive business models.

This can include the creation of challenge, innovation or replication funds, public-private investment vehicles, and matching grants, loans, equity, guarantees and other risk sharing tools. It includes joint investments in scientific research and in technology development and transfer. And it can include

I. HELPING TO OVERCOME BARRIERS

prizes to encourage, promote and help to finance innovative new technologies, products, services and business models.

Other actors can play a vital role in providing independent, evidence-based analysis and knowledge management of what works and what does not work in starting and scaling inclusive and sustainable business. They can undertake third-party evaluation, monitoring and endorsement of individual business models and projects, assessments of the broader impact of business on development, and competitive rankings and indices of corporate performance within specific industries or in relation to specific development challenges. They can support programs that raise awareness and spread examples of responsible business practices and inclusive business models. And they can provide management tools, training and technical assistance to build the capacity of business people to deliver viable market-based solutions to development challenges and to partner effectively with other actors in this process.

Other actors can also research and deliver market information on particular low-income markets that individual companies may not otherwise undertake to research on their own, thereby overcoming at least some of the market intelligence and information barriers to engaging with these markets.

3. Convening and coordinating private enterprises and other development actors at scale

Governments, foundations and certain non-governmental organizations can play a vital matchmaking, brokering or intermediation role in bringing together diverse actors, especially private sector competitors, to solve complex development challenges. This can be particularly effective when it comes to building multi-stakeholder alliances and convening and coordinating the activities of key actors along a particular value chain or within a particular location, cluster or corridor. It can also be helpful in establishing voluntary, industry-wide initiatives to improve corporate accountability and transparency in areas such as human rights, labor, the environment and anti-corruption.

In the case of convening competitors from the same industry sector, the role of other actors can be invaluable in terms of providing a more ‘neutral space’ and a legally acceptable environment for competitors to come together in a pre-competitive context to jointly solve systemic challenges. As outlined in more detail in Part Four, whether these challenges involve raising the bar on responsible business standards or making specific value chains more inclusive and sustainable, they cannot be addressed without better coordination, often between competing interests.

The catalyzing and facilitating role of other actors is particularly important when coordinating interventions in sectors and value chains that are most pertinent to poverty alleviation such as agriculture and food security, health systems and nutrition, energy, water and sanitation, financial services, working conditions in factories and farms, and climate adaptation and resilience. National government leadership and effective global governance is also essential in leveraging and coordinating private sector engagement in the poorest countries or regions, or in fragile states and locations that are facing or emerging from conflict and natural disasters.

I. HELPING TO OVERCOME BARRIERS

4. Improving the broader enabling environment for more inclusive private sector development

Governments in particular have a responsibility for improving the overall framework conditions or enabling environment for inclusive and sustainable markets and business.

At the international level, this calls for reform in international institutions and global governance structures to better accommodate the rise of emerging market powers and non-state actors as important players in global governance. It also calls for ongoing commitment to international frameworks that enable better coordination of aid, trade, investment and intellectual property regimes, and better integration of the global development and climate change agendas. And it requires ongoing efforts to promote universal norms and standards in areas such as human rights, labor, the environment and anti-corruption, and working with national governments, business associations and other actors to ensure these are implemented in practice on-the-ground in factories, farms and other workplaces and marketplaces around the world.

At a national level, creating an enabling environment includes the implementation of sound policies, regulations and rule of law; reliable public institutions and physical and information technology infrastructure; provision of social safety nets and welfare services; education and vocational training systems that generate a qualified labor force; and commitment to accountability and transparency around the use of public resources and the outcomes of public sector interventions. All of this is necessary to enable private sector development in general. At the same time, concerted efforts by governments and other actors in cooperation with the private sector itself need to be targeted more explicitly at the inclusion and distribution aspects of these broad enabling environment activities in order to “make markets work for the poor”.

The following section looks briefly at some of the ways governments; public donors, investors and development finance institutions; philanthropic foundations; trade unions; non-governmental organizations (NGOs); and academic and research institutions are helping to catalyze and facilitate private sector engagement in building more inclusive and sustainable business models and markets. This is a complex and multi-faceted topic and there is a rapidly growing body of experience and literature relating to each of these actors and their engagement with private enterprises. The following examples offer only a small illustrative selection of the increasingly diverse and innovative approaches that are emerging in all sectors, with a focus on how other actors are enabling and/or engaging directly with private sector enterprises.

II. GOVERNMENTS

Governments must take the lead. Their leadership is essential for making markets work – especially for the poor. It is also crucial for ensuring the drive towards new models of more environmentally sustainable, low-carbon economic growth and market development. It will be impossible to achieve more inclusive and sustainable business and markets in the absence of good governance, no matter how well resourced and well-intentioned non-state actors are, even the largest corporations acting collectively.

Market failure is all too often a result of governance failure. This can range from trade policies that disadvantage low-income countries or producers to national governments that are corrupt or lack sufficient institutional and administrative capacity to meet the needs of their citizens. It can also include well-intentioned public sector supply-side interventions or donor assistance programs that distort local markets or undermine the economic viability or capacity of local producers, employees and consumers.

At a national level, governments in every nation have ultimate responsibility for ensuring rule of law, protecting human rights, strengthening human security, and creating the framework conditions for inclusive and sustainable economic growth. Other actors, including private enterprises, clearly have a growing influence on determining outcomes in all of these public policy areas, but governments must lead. Governments also need to be responsible for setting national development priorities and policies. These are likely to be more effective, however, if they are developed and implemented through structured and systematic consultation with private sector and civil society actors in each country, and if they explicitly harness resources and competencies from these non-state actors.

Governments need to create the appropriate macroeconomic conditions, policies, regulations, institutions and incentives that will both facilitate and regulate the power of private entrepreneurship and business innovation, and that will ensure adequate monitoring and sanction of economic activities to build and protect public wellbeing. They need to create appropriate policies and institutions to ensure social security and to empower the poor to participate in decision-making and to report grievances when they are excluded or exploited.

The public sector in every country, both developed and developing, needs to improve efficiency, accountability and transparency for its own actions and outcomes. New models of stakeholder engagement and the use of information and communication technologies (ICT) and E-Governance can play a valuable role in this process.

In terms of building more inclusive markets and implementing pro-poor growth strategies, the role of national governments, and to a lesser extent regional and local governments, is especially important in the following areas:

1. Creating an enabling environment for private sector development in general, especially small and medium-size enterprises.
2. Directly promoting responsible, inclusive and sustainable business.

II. GOVERNMENTS

1. Creating an enabling environment for private sector development in general, especially small and medium-size enterprises

Government actions are essential to creating an enabling environment for private sector development that lowers the risks, costs and barriers, and raises the incentives and opportunities for competitive and productive enterprise. Generally well-functioning markets and diverse business communities are a necessary foundation for enabling business models and economic growth that are more explicitly pro-poor and environmentally sustainable.

Getting the basic framework conditions right for a sound investment climate and private sector development requires governments to:

- Ensure political and macroeconomic stability
- Implement clear business regulations, legal systems, trade, investment and competition policies
- Minimize policy uncertainty
- Strengthen local capital markets and financial institutions
- Tackle corruption and other forms of rent seeking that raise costs and distort policies and markets
- Invest in physical, social and institutional infrastructure
- Tailor policy interventions to fit local conditions and administrative capacity
- Foster the social consensus, legitimacy and public trust required to sustain policy improvements by ensuring accountability, transparency and consultation in the design and implementation of policies.³

Research by the World Bank Group that surveyed some 26,000 mostly firms in 53 countries and over 3,000 micro-entrepreneurs operating in the informal economy in 11 of these countries, concluded that policy-related risks – especially policy uncertainty and macroeconomic instability – dominate the concerns of firms operating in developing countries.⁴ These risks can seriously undermine the incentives for both domestic and foreign companies to invest, innovate, upgrade and increase their productivity, all of which are important for tackling poverty. As surveys by the World Bank, UN and others have shown, weaknesses in government performance impose high costs on firms of all sizes, but especially on the small enterprises that are such essential conduits for poverty alleviation.

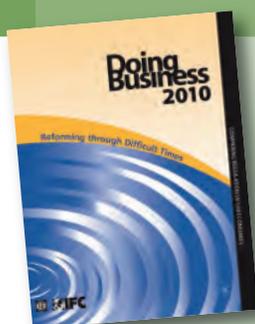
The lead author of the team that prepared the *World Development Report 2005: A Better Investment Climate for Everyone*, comments, “The survey data show that there are some systematic differences between firms based on their size, with smaller firms generally facing the most severe constraints. Larger firms are typically better equipped to deal with distorted financial markets (due to sources of internal finance, assets to pledge as collateral and established reputations); to cope with poor infrastructure through self-provision; and to cope with potential policy uncertainty through better access to politicians and officials. One implication is that efforts to improve the overall investment climate will tend to deliver disproportionate benefits to smaller firms. This is encouraging news, particularly given the poor track-record of many schemes intended to confer special benefits on smaller firms.”⁵

Another clear message that is evolving from research on the role of government in supporting private sector development is that macro-economic reforms are necessary, but not sufficient. The World Bank's *Doing Business* project in particular has played a useful role in focusing the attention of policymakers and private sector leaders on the importance of business laws and regulations. The first report in the series, *Doing Business in 2004*, made the following case:

“To create [a vibrant private sector], governments around the world have implemented wide-ranging reforms, including macro-stabilization programs, price liberalization, privatization, and trade-barrier reductions. In many countries, however, entrepreneurial activity remains limited, poverty high, and growth stagnant. And other countries have spurned orthodox macro reforms and done well. How so? Although macro policies are unquestionably important, there is a growing consensus that the quality of business regulation and the institutions that enforce it are a major determinant of prosperity.”⁶

Since the launch of its first report in 2003, the *Doing Business* project has become one of the World Bank's most influential and widely used knowledge products, serving as an objective reference and benchmark for public and private sector leaders. It has also helped to identify effective policy reforms and facilitate the transfer of good practices between governments. The project is described in more detail in Box 1.

BOX 1: The Doing Business project



At the outset of the *Doing Business* project in 2001, there was little systematic analysis across countries of specific business laws and regulations, and no globally available indicator sets for monitoring and comparing these microeconomic factors or analyzing their impact on economic development outcomes such as productivity, investment, informality, employment and poverty. To address this gap, the *Doing Business* project set out to, “provide an objective basis for understanding and improving the regulatory environment for business.” As of 2010, the following ten sets of indicators were being tracked and benchmarked, along with regulatory reforms in 183 economies:

Indicators that make up the ‘Ease of Doing Business’ ranking

- 1 Starting a business**
Procedures, time, cost and paid-in minimum capital to open a business
- 2 Dealing with construction permits**
Procedures, time and cost to obtain construction permits, inspections and utility connections
- 3 Employing workers**
Difficulty of hiring index, rigidity of hours index, difficulty of firing index, firing cost
- 4 Registering property**
Procedures, time and cost to transfer commercial real estate
- 5 Getting credit**
Strength of legal rights, depth of credit information index
- 6 Protecting investors**
Strength of investor protection index, extent of disclosure index, extent of director liability index and ease of shareholder suits index
- 7 Paying taxes**
Number of tax payments, time to prepare and file tax returns, and to pay taxes, total taxes as a share of profit before all taxes borne
- 8 Trading across borders**
Documents, time and cost to export and import
- 9 Enforcing contracts**
Procedures, time and cost to resolve a commercial dispute
- 10 Closing a business**
Recovery rate in bankruptcy

The Doing Business project continued

Links between Doing Business indicators and Inclusive Business

The *Doing Business* project emphasizes its own limitations, stating that its scope is limited to, “10 topics, with the specific aim of measuring the regulation and red tape relevant to the life cycle of a domestic small to medium-size firm.” As such, it does not measure all aspects of the business environment that matter to firms or investors, nor does it focus on regulations specific to foreign investment or assess the strength of the financial system and financial market regulations. Having said this, however, there are strong correlations between the *Doing Business* rankings and more broad economic benchmarks such as the World Economic Forum’s *Global Competitiveness Index*, IMD’s *World Competitiveness Yearbook* and the OECD’s indicators of product market regulation.

Although the *Doing Business* project does not explicitly focus on the relationship between the regulatory environment for small and medium-sized businesses and pro-poor or inclusive business, it offers some useful insights into this relationship:

- *First, it is more difficult and costly to do business in poor countries than rich countries:* The *Doing Business in 2005* report stated, “Businesses in poor countries face much larger regulatory burdens than those in rich countries. They face 3 times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries.”
- *Second, cumbersome business regulations hurt the poor in particular:* The *Doing Business in 2005* report pointed out,

“Heavy regulation and weak property rights exclude the poor from doing business. In poor countries 40%-80% of the economy is informal. Women, young and low-skilled workers are hurt the most.”

- *Third, reforms in business regulations can be measurably beneficial to economic growth and poverty reduction:* The *Doing Business in 2006* report emphasized the potential benefits of regulatory reform to the poor directly, “Improving a country’s *Doing Business* indicators to the level of the top quartile is associated with a 9 percentage point fall in the share of GDP accounted for by informal activity. ... Female and young workers would benefit the most from these changes. Both groups account for a large share of the unemployed and burdensome regulations significantly affect their job opportunities.”

Given that small and medium-size enterprises are the major drivers of job creation, employment and growth in almost all countries, and that income from self-employment or wages provides a primary pathway out of poverty, it follows that making it easier to operate a formal business will have important implications for inclusion and protection of low-income producers and employees. As *Doing Business* states, “Enabling growth – and ensuring that poor people can participate in its benefits – requires an environment where new entrants regardless of their gender or ethnic origin, can get started in business and where good firms can invest and grow, generating more jobs. ... where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any

aspiring entrepreneurs, regardless of their connections, to operate within the rule of law and to benefit from the opportunities and protections that the law provides. In this sense, *Doing Business* values good rules as a key to social inclusion.”

The *Doing Business* project is undertaking further research to focus more directly on the pro-poor nature of business regulations. In 2009, it undertook research in two new areas: the ease of obtaining an electricity connection and the level of adoption in national legislation of the International Labour Organisation’s core labor standards, starting with a focus on child labor. It plans to develop a worker protection indicator, in close consultation with the ILO and other stakeholders. It has also worked with the IFC and Vital Voices to undertake research specifically focused on the business environment for women entrepreneurs. It is also looking at indicators related to creating an enabling environment for smallholder agriculture.

In addition to being able to benchmark the costs and risks of doing business in one country versus another, the *Doing Business* project is ranking, highlighting and sharing good practices in regulatory reforms that are being undertaken by governments to create a better enabling environment for private sector development. A large number of these regulatory reforms offer relatively simple solutions that can be replicated by other governments and their impact on economic growth and poverty reduction can be substantial.

In summary, creating sound macroeconomic conditions, business laws and regulations, strengthening capital markets and financial institutions, and investing in physical and social infrastructure are all essential roles for government to play in improving the investment climate and supporting private sector development in general.

While sound framework conditions are important for all enterprises, they are especially necessary for the small and medium-size enterprises that are the key drivers of job creation, income generation and poverty alleviation. Whether it is helping informal enterprises move into the formal economy or enabling high-potential entrepreneurs to upgrade into commercial value chains, governments can enable more inclusive private sector development through:

- Efforts to ensure that reforms to the overall investment climate or framework conditions for private sector development take into consideration the constraints and opportunities faced by small enterprises and do not create impediments to or biases against small enterprise - including smallholder farmers and rural enterprises and key population groups such as women and youth entrepreneurs.
- Provide targeted support for small enterprise development in areas such as access to finance, business development services, small enterprise cluster development, access to markets and business linkage initiatives. Evidence suggests that government should play a facilitative or enabling role rather than direct service delivery role, ensuring wherever possible that these initiatives are demand-driven, market-oriented and either private sector-led or public-private partnerships, and that they address the lessons of previous less effective government-led, supply-side interventions in the area of small business development.
- Efforts to ensure that small and medium-size enterprises and smallholder producer associations and cooperatives, or their representative bodies if these exist, are more systematically consulted in economic policymaking and public-private policy dialogues to ensure that their perspectives and needs are better integrated into policy development and implementation, and not only the views of large, well-connected companies.⁷

Different countries will have different challenges and policy areas that require particular focus, but achieving a combination of the above conditions is necessary in all countries to ensure a suitable investment climate for pro-poor growth. However, additional targeted actions can be taken by governments to enable more responsible, inclusive and sustainable market-based solutions and business models.

II. GOVERNMENTS

2. Directly promoting responsible, inclusive and sustainable business

In addition to creating a sound investment climate, governments can undertake a variety of interventions – such as laws and regulations, fiscal instruments and incentives, procurement and public financing requirements and supporting voluntary initiatives – in order to promote business investment that is more responsible, inclusive and sustainable:

- **Responsible** in terms of private enterprises operating ethically, respecting human rights, implementing sound labor and environmental practices, and supporting efforts to tackle corruption, rent-seeking and short-term speculation that can undermine the economic security and financial stability of both countries and households.
- **Inclusive** in terms of supporting private enterprises, both commercial firms and social enterprises, to develop commercially viable approaches that explicitly aim to include the poor as producers, employees and consumers.
- **Sustainable** in terms of supporting private enterprises to produce more with less and to reduce their environmental footprints while meeting growing consumption and infrastructure needs.

Both inclusive and sustainable business approaches require innovations in technology, products, services, processes and business models. Governments can play a vital role in enabling such innovation, or at least not impeding it.

Governments play a role in determining business behavior as regulators, investors through public funds, customers through public procurement and convenors. Box 2 provides a framework for categorizing some of the key interventions that governments can make in promoting responsible, inclusive and sustainable business. It outlines a wide variety of public sector interventions too numerous to address in detail in this report, but many of these interventions offer potential for increased policy innovation by governments in both developing and developed countries.

A 2010 study by the Bertelsmann Foundation and United Nations Global Compact has profiled innovative public policies around the world under four categories of: awareness-raising; partnering; soft law; and mandating. A small sample of these examples is profiled in Box 3. This study builds on a framework developed by the World Bank Group in 2004 on the role of the public sector in strengthening corporate social responsibility.⁸ To-date, however, there has been little detailed analysis or comparative studies of different policies and regulations that governments are undertaking to mandate or support more responsible, inclusive and sustainable business – whether in the form of comprehensive national plans and programs or through more targeted policy instruments. This is an area that warrants further research and analysis.

BOX 2: Promoting responsible, inclusive and sustainable business

Establishing 'RULES OF THE GAME'

- **Command and control regulations** – Legally binding laws and regulatory frameworks for enforcing responsible business practices and public disclosure of corporate performance, and protecting intellectual property and other property rights at the local, national and international level.
- **Government-driven market mechanisms** – Economic instruments that create incentives for responsible business practices and penalise bad practices. For example, taxes, grants, subsidies, fines, fees, social and eco-labelling schemes, stock market listing criteria and indices, government procurement, tendering and export credit schemes, environmental trading permits and enterprise zones.
- **Government support for voluntary approaches** – Mechanisms and negotiated agreements which enable voluntary action by business, such as guidelines and codes of conduct (developed by industry itself or jointly with government and civil society actors), with systems to measure, monitor and certify their implementation and to sanction or remediate non-compliance.
- **Laws and regulations to support inclusive business models** – In addition to strengthening existing laws and regulations to make it easier to do business in the formal sector, provide greater flexibility for private sector enterprises to establish or operate as social businesses, community interest companies, low-profit, limited liability companies, social enterprises, cooperatives, and hybrid 'blended value' or impact investors.

Building PUBLIC-PRIVATE RELATIONSHIPS

- **Public policy consultation mechanisms** – Government appointed commissions, task forces, councils and advisory initiatives focused on addressing socio-economic or environmental policy issues.
- **Multistakeholder Alliances** – Collaborative mechanisms focused on increasing dialogue, mobilizing resources and/or strengthening accountability between business and its stakeholders, including governments. Often most effectively focused on a particular development challenge, value chain, industry sector or location.
- **Donor programmes for business partnerships** – Specific programmes targeted at bringing the business sector into partnership with the UN system and other multilateral and bilateral governmental bodies to tackle key development challenges.

Mobilising PUBLIC-PRIVATE RESOURCES

- **Financial resources** – Innovative funding and investment vehicles, such as government-sponsored challenge, innovation and replication funds, social funds, debt swaps, public-private financing facilities, social investment funds and indices, cause-related or social marketing, matched-giving schemes, venture philanthropy, micro-finance intermediaries, community banks and community or social-venture capital.
- **Skills and managerial resources** – Programmes that combine business and public sector skills to support development objectives or that build future managerial and organisational skills for cross-sector partnerships and responsible business.
- **Information and advisory services** – Government supported initiatives to provide companies with information and advice on how to implement responsible, inclusive and sustainable business practices and to provide market information and research on specific low-income markets and opportunities that companies may not research themselves.

Giving PUBLIC RECOGNITION

- **Government award programmes** – Initiatives that recognize and publicise responsible business practices.
- **League tables and reputation surveys** – Efforts to rank the economic, social and/or environmental performance of companies relative to their peer group in selected geographies or industry sectors.

Source: Adapted from Nelson, Jane. *Creating the Enabling Environment: Mechanisms to promote global corporate citizenship*. Executive Summary. International Business Leaders Forum, 2000.

BOX 3: Government actions at the national level to promote corporate responsibility and private sector engagement in development



In their report: *'The Role of Government in Promoting Corporate Responsibility and Private Sector Engagement in Development'*, the Bertelsmann Foundation and the UN Global

Compact note, "The economic crisis that so many countries have been facing has put the spotlight on the need for more corporate responsibility and what governments can do to promote it. In addition, interest in innovative ways to help stretch government resources for development has risen. Responsible business, as the key driver of sustainable development, also has a lot to offer in the way of resources, expertise, distribution networks, personnel, and so forth."

Drawing on lessons from both developing and developed countries, the study highlights five essential corporate responsibility action areas within the public policy agenda: corporate governance; corporate reporting and disclosure; corporate community involvement and development; responsible management and production; and responsible consumption. It focuses on four main policy options for governments, building on previous work by the World Bank: awareness raising; partnering; soft law; and mandating.

The report profiles a number of specific policy instruments being implemented by some 20 governments. The following vignettes offer a small sample of policy initiatives being undertaken by four increasingly influential governments, each with very different political economies, but all developing their own approaches to promoting corporate responsibility and engaging major enterprises, both private and state-owned, in national efforts to balance economic growth and competitiveness with more inclusive and sustainable markets:

South Africa – The South African government and business community have pioneered several national initiatives such as the country's Black Economic Empowerment policy, which is embedded in a range of mandatory and voluntary measures and public procurement and financing instruments; industry charters for strategic sectors such as mining and finance, that cover issues from job creation and environmental sustainability to community social investment; joint consultation and national development structures such as the Business Trust and the National Economic Development and Labor Council; and an emerging low-carbon national growth strategy.

China – In 2008, the Chinese government issued a set of 'Corporate Social Responsibility Guidelines for State-Owned Enterprises', explicitly linked to the government's commitment to promote a 'harmonious society' by balancing economic growth with environmental sustainability and social inclusion. Along with similar guidelines for foreign invested companies in China and guidelines for the textile and apparel sector and financial institutions, also issued between 2008 and 2009, these send a signal of an evolving Chinese approach that is likely to be of growing influence as Chinese SOEs become global players and major investors in developing countries. To-date, about 50 of China's largest companies have issued corporate responsibility reports and established social and environmental departments and management systems in response to these guidelines.

India – In 2009, India's Ministry of Corporate Affairs released a set of voluntary corporate responsibility guidelines, and the Indian government is working on a national program with the country's major representative business bodies to implement a national affirmative action strategy aimed at promoting greater economic inclusion of marginalized groups. The Indian government requires insurance companies to do 20 percent of their business in rural areas and the 'social sector' or informal

sector. This regulation, together with other government incentives, has helped to spur the growth in micro-insurance products and other financial services for low-income markets.

Brazil – Over the past decade the Brazilian Government has undertaken a number of initiatives that explicitly engage the corporate sector in helping to tackle national development challenges. One example is Fome Zero (Zero Hunger), a federal government program to promote food security and social inclusion. It operates on four main pillars: access to food, strengthening of family agriculture, income generation, and social mobilization. A closely related program is the country's well-regarded Bolsa Família (a Conditional Cash Transfer program that provides financial aid to poor households on the condition that their children attend school and are vaccinated). Corporations, as well as civil society organizations are encouraged to participate in these efforts in a variety of ways. They are required to meet a set of criteria to become certified partners. Some 100 companies are engaged. Several business leadership networks and alliances have also supported the program, such as Instituto Ethos, a business leadership network of over 200 Brazilian companies dedicated to promoting corporate responsibility, and Ação Fome Zero (Zero Hunger Action), a civic alliance of businesses and entrepreneurs that supports school feeding and nutrition programs. Brazil also plays a critical and growing role, in the area of climate change and protecting tropical forests. The government is spearheading a number of innovative public-private partnerships and funds in this area. One example is the Amazon Fund, which is aimed at mobilizing private and public investments to prevent, monitor and combat deforestation, as well as to promote the sustainable use of forests in the Amazon Biome. The Fund is managed by BNDES, the Brazilian Development Bank, and has set up mechanisms through which companies, philanthropists and individuals can donate funds.

Sources: *The Role of Governments in Promoting Corporate Responsibility and Private Sector Engagement in Development*. Bertelsmann Foundation and UN Global Compact, 2010. *The CSR Navigator: Public policies in Africa, the Americas, Asia and Europe*. Bertelsmann Foundation and GTZ, 2007

In addition to working directly with business associations and private enterprises to promote more inclusive and sustainable business, governments can play an important role in shaping business behavior towards longer-term value creation and better social, environmental and governance (ESG) performance through the capital markets and through fostering innovation and technology transfer.

Capital markets are an essential prerequisite, but too often a constraint on competitive business models becoming more inclusive and sustainable at scale. In both developed and developing countries, they focus on rewarding short-term rather than long-term performance. Most also fail to factor social and environmental costs and benefits into resource allocation decisions alongside financial risks and performance.

In developing countries the priority for governments is clearly to develop and strengthen basic financial infrastructure and corporate governance standards, let alone implement environmental and social frameworks. This includes not only establishing and building financial institutions themselves such as banks, microfinance institutions, insurers, investors and leasing entities, but also increasing the reliability and transparency of institutional infrastructure such as payment, remittance and securities settlement systems, credit bureaus and collateral registries. All are essential to scaling the development impact of private enterprise and to supporting more inclusive, pro-poor growth.

However, as the IFC and certain emerging markets such as Brazil and South Africa have demonstrated, strengthening basic financial infrastructure can still go hand-in-hand with implementing better environmental, social and governance standards for local capital markets and corporations. Box 4 profiles pioneering work by the Johannesburg and Bovespa Stock Exchanges, in partnership with government ministries and pension funds.

BOX 4: The Johannesburg Stock Exchange and Bovespa: Creating social responsibility and sustainability indices

The Johannesburg Stock Exchange (JSE) in South Africa has operated for over 120 years and is now playing a growing pan-African role. In 2004 it launched the *JSE Socially Responsible Investment (SRI) Index* – the first of its kind in an emerging market. Working with South Africa's largest pension fund, the Government Employee Pension Fund and UK-based research organization EIRIS, the index tracks some 100 companies making up 85% of the JSE's market capitalization, with 61 becoming index constituents in 2009. Companies are ranked on environmental, social and governance criteria, both general indicators and some specific for the South African context – notably, their performance on managing HIV/AIDS and Black Economic Empowerment.

In Brazil, the Ministry of the Environment worked with the BM&F Bovespa Exchange, now one of the ten largest stock exchanges in the world, together with the Brazilian Association of Pension Funds, the Brazilian Association of Capital and Financial Markets Institutions, the Brazilian Institute of Corporate Governance, the Ethos Institute of Social Responsibility, and the IFC and to launch the *Bovespa Corporate Sustainability Index* in 2005. The Center for Sustainability Studies at FGV, one of Brazil's leading business schools, works with the Bovespa exchange to assess the environmental, social and governance performance of the 200 most liquid stocks. These are judged on the basis of their policies, management systems, performance results and legal compliance, with some 40-50 meeting the listing criteria for the Bovespa Sustainability Index.

Sources: UNEP Finance Initiative; Johannesburg Stock Exchange and BM&FBovespa

Multi-stakeholder financial sector alliances that have been established in the past decade such as the Equator Principles for project finance, the Principles for Responsible Investment, the Aspen Network for Development Entrepreneurs, the Consultative Group to Assist the Poorest and the Alliance for Financial Inclusion, all of which are profiled in Part Four of the report, also offer potential for achieving greater scale and systemic impact in harnessing capital markets for poverty alleviation.

The ability to transfer, adapt or locally develop innovative new technologies in areas such as information and communications, biotechnology and low-carbon, clean technology, is another increasingly important driver of building more inclusive and sustainable markets and business. As the World Business Council for Sustainable Development has noted:

“successful technology transfer is not primarily about the transfer of hardware, but of the soft skills that allow developing countries to effectively adapt, use and maintain technologies. It spurs innovation and facilitates the flow of ideas and people. Technology transfer is most effectively achieved through business-to-business cooperation, but it can be encouraged by governments. ...Transfers are being hindered mainly by a lack of infrastructure, a lack of capacity to absorb the technology, and a lack of policy framework that fosters investment. Governments could help to increase the spread of technologies by addressing these shortfalls.”⁹

In summary, existing policy frameworks in most countries often lack the appropriate laws, regulations and incentives, or the administrative capacity to implement them, that are needed to promote responsible business practices and to make it commercially viable for competitive business models to reach the poor at scale as producers, employees and consumers or to develop and disseminate new environmentally beneficial technologies. This is a challenge everywhere, but especially in many developing countries, where weak or inhospitable investment climates impede private sector development in general, let alone actively encouraging pro-poor and inclusive business models or environmental sustainability.

There are valuable lessons to be learned, especially from some of the rapidly emerging markets such as China, Brazil, India, Turkey and South Africa. Identifying and analyzing policy innovations that promote inclusive and sustainable business, and where relevant replicating them between governments is an area that warrants further support by governments, donors, foundations and academic and research institutions.

The following section looks at the role of bilateral and multilateral donors and development finance institutions, all of them government entities but worthy of separate review to the role of national governments.

II. BILATERAL AND MULTILATERAL DONORS AND FINANCIAL INSTITUTIONS⁹

In their 2008 Private Sector Development Strategy, the UK Department for International Development (DFID) made a clear case for donor intervention in markets and private sector development. They stated:

“Just because private sector development is successful, it does not necessarily follow that poor people benefit. Private markets can exclude the poor, especially those who have nothing to buy or sell. Social or economic barriers can exclude groups such as ethnic minorities, migrants or women. ...It is justifiable for donors to support government interventions in markets where there are significant failures and inefficiencies which limit private sector growth, and prevent the participation of poor men and women.”¹⁰

Well-documented market failures and barriers identified by DFID and others include: market power through monopoly or imperfect competition; uneven access to information or lack of information generation; social exclusion; incomplete or ‘missing’ markets; coordination failures; and externalities and public goods. Added to these are challenges of corruption and weak corporate and/or public governance structures.

A 2008 study undertaken by UNDP’s Growing Inclusive Markets Initiative, offers similar conclusions on the need for donors and other development actors to play an active role in overcoming market failures and constraints to including the poor. Drawing on extensive research, the study focuses on five main constraints: limited market information; ineffective regulatory environments; inadequate physical infrastructure; missing knowledge and skills; and restricted access to financial products and services, and illustrates ways in which private sector companies can collaborate with other actors to overcome these.¹¹

Most bilateral and multilateral donors and development finance institutions have increased the quantity and the variety of their engagement with the private sector over the past decade. Motives and mechanisms vary depending on the agencies and private sector entities in question, but the vast majority of these efforts address one or more of the following five objectives:

- **Catalyzing domestic and international private investment to drive economic growth and opportunity:** Donors have provided policy support to developing country governments to improve the overall business climate for investment and financial and advisory support to private firms – from large corporations to low-income producers and producer associations. The World Bank’s Doing Business Project has established an empirically rigorous benchmark against which partner governments, donors and private investors can assess progress.
- **Improving corporate accountability and transparency and/or spreading responsible business standards:** Donor engagement here ranges from longstanding efforts such as the ILO’s Core Labor Standards and OECD’s Guidelines on Multinational Enterprises, to new initiatives such as the UN Global Compact, the UN Secretary-General’s Special Representative on Business and Human Rights, and a number of multi-stakeholder accountability mechanisms. It also includes ODA funding for non-governmental organizations, trade unions and the media as watchdogs and campaigners for more responsible and more accountable private sector behavior.

- **Leveraging the private sector as an innovator and partner to achieve broader development goals:** Donors have provided catalytic financing, convened multi-stakeholder initiatives, developed tools, and undertaken capacity building to increase the broader development impact of private sector activities. This has included efforts to: engage companies and social enterprises in meeting the MDGs and promoting green growth by leveraging core business competencies, value chains and science and technology and/or harnessing resources from corporate philanthropy and volunteering
- **Responding to humanitarian crises:** A number of the major humanitarian agencies such as the World Food Programme and UNICEF, as well as non-governmental humanitarian organizations, are now working with the private sector in strategic efforts not only to mobilize corporate philanthropy, but also to harness core business capabilities such as logistics, and information technology, to improve the coordination and effectiveness of humanitarian response.
- **Integrating the private sector's voice and experience into global and national policy dialogues:** Multilateral and bilateral agencies have taken measures to engage private enterprises and their representative bodies more systematically in global policy dialogues and as formal advisors to major donor programs.

Over the past decade, driven in large part by the global financial and food crises and in part by the targets set by the Millennium Development Goals and the Paris Declaration on Aid Effectiveness, bilateral and multilateral donors have focused on improving their coordination around crucial development issues. Food security, global health, climate adaptation, energy and water have been areas of particular focus. In addition, there have been renewed efforts to support country-ownership of development policies by partner governments and better donor coordination at the country-level. Linked to these efforts, there is growing coordination and shared learning between donors in terms of their engagement with the private sector. Within the UN system, for example, the leadership role of the UN Global Compact and UNDP has been vital in putting the private sector firmly on the global development agenda and helping to engage and coordinate other bilateral and multilateral agencies, both globally and at the country-level.

The long-standing 'Donor Committee on Enterprise Development' continues to provide a platform for shared learning in the area of small enterprise development and the OECD's Business and Industry Advisory Committee (BIAC) has served as a representative business body providing advice and counsel to the OECD for nearly fifty years. At the United Nations MDG Summit in September 2010, a group of eleven bilateral donors, supported by the IFC and UNDP, launched a joint 'Bilateral Donors Statement in Support of Private Sector Partnerships for Development' (See Appendix 1 for full statement.) In this statement, the donors make the point, "Rather than viewing the private sector merely as resource providers, we choose to recognize the private sector as equal partners around key development issues and will enter into partnerships with local and international companies of various sizes."

The evolving relationships between donors, international finance institutions and the private sector are diverse and increasingly sophisticated, with potential in some cases of achieving scale and impact in improving development outcomes. The following examples offer only a glimpse into the rapidly expanding and diversifying landscape of institutional engagement between the private sector and donor community.

The United Nations

Many U.N. agencies, funds and programs have increased the level and quality of their private sector engagement. New system-wide initiatives such as the United Nations Global Compact (UNGC) have also been created, as profiled in Box 5. The United Nations Foundation, working through the U.N. Office for Partnerships and other agencies, is another example of a relatively new entity established in 1998, that has leveraged donor, philanthropic and private investment from a wide variety of sources to fund and scale programs in areas such as women and population and climate and energy.

In 2005, the UN Secretary-General also appointed the first-ever Special Representative with an exclusive focus on the private sector. Professor John Ruggie was appointed as the SG's Special Representative on Business and Human Rights, with a mandate to propose measures that will strengthen the human rights performance of the business sector around the world. In 2008, the UN Human Rights Council was unanimous in welcoming a policy framework he proposed for that purpose. They extended the mandate for a further three years, asking him to build on and promote the framework so as to provide concrete guidance for states, businesses, and other social actors. The three part framework can be summarized as: the state duty to protect human rights; the corporate responsibility to respect human rights; and access to remedy.¹²

UNDP has established the *Growing Inclusive Markets* initiative. This is an empirically driven effort to improve understanding on how the private sector – especially domestic companies in developing countries – can contribute to human development and the MDGs in commercially viable ways. The initiative is supported by a global advisory board of over 20 major bilateral and multilateral donors, academic and research institutions and business leadership coalitions. It has created a network of southern-based researchers and is working with a number of partner governments to improve their enabling environments for inclusive business. *The Business Call to Action* is another multistakeholder initiative hosted by UNDP. Supported by several bilateral donor agencies and business leadership networks, it is a commitment-driven effort that calls on individual corporations to make specific commercially-viable commitments to delivering the MDGs. As of July 2010, some 20 corporations were participating in the initiative.

Space does not permit a summary of all the new private sector engagement mechanisms being employed in the UN system or the way in which longstanding structures have evolved as in the case of the ILO. Suffice to say some 40 UN funds, programs and agencies participate in the U.N.'s "Private Sector Focal Points" network established in 2004. Their modes of engagement and purpose for doing so varies widely depending on the UN entity in question, but in almost all cases the level and variety of private sector engagement has increased over the past decade.

Box 5: The United Nations Global Compact

Background and mission:

The United Nations Global Compact (UNGC) was established in 2000, following a speech at the World Economic Forum by the former UN Secretary-General, Kofi Annan in which he called on business leaders to implement a set of nine universally agreed principles in the areas of human rights, labor and the environment. A tenth principle on anti-corruption was added in 2004. Today, UNGC works with a wide variety of private sector enterprises and business associations, governments, civil society organizations, trade unions, academics and other UN agency partners, to provide a global policy framework and platform with the goal of achieving two complementary objectives:

- Mainstreaming the ten core principles in business activities around the world; and
- Catalyzing actions in support of broader UN goals, including the Millennium Development Goals.

Over the past decade, UNGC has become the world's largest voluntary corporate responsibility initiative with over 8,000 corporate signatories based in more than 130 countries. Its business participants are drawn from all industry sectors and range in size from major multinational corporations to medium-sized companies. Almost two thirds of these companies are from developing countries. In addition to providing a wide spectrum of work streams, conferences, management tools and resources for individual companies to improve their own performance, the UNGC has helped to establish national or regional networks in some 90 countries and supports several global platforms focused on key systemic challenges such as climate change, water and empowering women.

As an integral part of its mission to promote responsible business practices, the UNGC has also become a forum for constructive cross-sector dialogue and partnership-building between the private sector, governments,

international agencies, trade unions and civil society organizations.

UNGC has also incubated two other global voluntary initiatives: the Principles of Responsible Investment (PRI) and the Principles of Responsible Management Education (PRME), which between them have mobilized many of the world's major investors and business schools. As of 2010, over 800 investment institutions from 45 countries had become signatories to PRI and PRME is co-convened by five major business school associations or networks reaching several thousand universities.

In order to join the UNGC, company chief executives must write a letter of commitment that their company will implement the ten principles in its corporate policies and practices and contribute to broad development objectives through its core business operations, social investments and philanthropy, advocacy and public policy engagement, and engagement in partnerships and collective action. Each year, participating companies are required to report on their performance against this commitment at either a basic, intermediate or advanced level. The UNGC has de-listed a number of companies that have failed to meet this requirement.

Funding, governance and oversight:

The UNGC enjoys the support of the UN General Assembly, to which it provides regular reports, and it has been recognized in a number of other inter-governmental contexts. Governments also provide essential funding to support the work of UNGC through voluntary contributions to a UN Trust Fund and the Donor Group meets twice annually. Within the UN system, the UNGC is supported by a core inter-agency team consisting of the Global Compact office and seven UN agencies - OHCHR, ILO, UNEP, UNODC, UNDP, UNIDO, UNIFEM. Other UN agencies are encouraged to engage with its

activities and it helps to facilitate a system-wide network of 'private sector focal points', who meet on a regular basis to share best practices, review UN guidelines for working with the private sector and improve cooperation. UNGC is also supported by a multi-stakeholder advisory board, which reviews its progress and advises on strategic direction. Annual financial contributions are made by participating companies and national and regional networks receive local support from companies and other partners in the countries where they operate.

Global platforms:

UNGC currently manages several global platforms and projects. These include: the CEO Water Mandate; the Caring for Climate coalition; projects on supply chain sustainability, sustainable development and empowering women; and global working groups on human rights, labor, environmental stewardship, anti-corruption and responsible investment in conflict affected countries.

In 2011, UNGC will launch a new platform for corporate sustainability leadership – Global Compact LEAD. Consisting of the most committed and engaged UN Global Compact companies, participants will be challenged to implement the 'Blueprint for Corporate Sustainability Leadership' and to lead new efforts to raise sustainability performance with the goal of achieving greater leverage, scale and impact.

Development Finance Institutions

Bilateral and multilateral development banks (MDBs) and DFIs have also increased the level and range of financial and advisory services offered to the private sector. As the World Bank's private sector arm, IFC offers a useful barometer. IFC's investments have grown from \$5.3 billion in 2005 to an anticipated \$12.6 billion in 2010, and the number of projects has more than doubled from about 236 in 2005 to an anticipated 528 in 2010. It now operates in 60 IDA countries compared with 29 five years ago and is extending services to micro-, small-size enterprises and financing market-based solutions to deliver health, housing, education and financial services for the poor.¹³

In addition to increasing the size and reach of its portfolio, IFC is focusing more explicitly on the development impact of its clients. Its performance standards on social and environmental sustainability were launched in 2006 and have become a global benchmark. Similar approaches have been adopted by over 30 OECD Export Credit Agencies, some 15 European DFIs and over 70 financial institutions that are signatories of the Equator Principles, which cover some 75 percent of all project-financing in developing countries.

The regional development banks demonstrate similar trends and actions. According to the World Bank, since 2000, non-sovereign lending of the MDBs has been their fastest growing portfolio, albeit from a small base.¹⁴

Boxes 6 and 7 provide brief summaries of the some of the inclusive markets efforts being undertaken by the IFC and Inter American Development Bank.

Box 6: The International Finance Corporation:

Scaling up commitment to inclusive business and base of the pyramid markets

The private sector arm of the World Bank Group, IFC's mission is to "create opportunity for people to escape poverty and improve their lives by promoting open and competitive markets in developing countries; supporting companies and other private sector partners where there is a gap; and helping to generate productive jobs and deliver essential services to the underserved."

IFC uses a variety of levers in pursuit of its mission, working across market systems to make them more inclusive of the poor. For example, IFC works with governments and

companies to establish conducive rules through its investment climate division and social and environmental performance standards, respectively. It builds the capacity of a wide variety of market players through initiatives ranging from the Global Credit Bureau Program to SME Management Solutions. It works to put the knowledge generated through its experience into the public domain through publications such as *The SME Banking Knowledge Guide*, *The Business of Health in Africa*, and *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*.

IFC also provides direct support to large national and multinational firms doing inclusive business. IFC offers both advisory and commercial investment services, including debt and equity – making the organization fairly unique among development agencies, which typically have limited ability to invest commercially or at scale in the private sector. Particularly powerful is IFC's ability to combine investment with the knowledge, capacity, and enabling environment work needed for that investment to succeed.

Source: Information accessed from institution's websites and materials.

Box 7: The Inter-American Development Bank's Opportunities for the Majority

Established in 1959, the Inter-American Development Bank (IDB) is a multilateral development finance institution owned by 48 shareholder governments including the governments of its 26 borrowing countries in Latin America and the Caribbean.

While IDB lends significant sums to national, provincial, state, and municipal governments, it also invests in the private sector. One private sector-oriented initiative is its Opportunities for the Majority Initiative, launched in July 2007. Opportunities for the Majority (OMJ) promotes and finances inclusive business models in order to improve living standards for the 360 million people at the base of the economic pyramid in the region.

OMJ is a \$250 million facility offering medium- to long-term loans and partial credit guarantees to companies with inclusive business models that are financially sound and capable of reaching scale. A key strategy has been to invest in models that leverage existing platforms, such as utilities and microfinance institutions, to reach scale quickly. Colombia's Financiación Social ("Social Financing"), for example, is a trust fund managed by two large banks that

evaluate prospective borrowers from low-income segments based on their utility bill payment histories, accessed via an agreement with Empresas Públicas de Medellín (EPM) – the second largest electricity company in Colombia, with additional operations in water, sewer, natural gas, and telecomms. EPM had noticed that many of its 1.7 million customers paid their bills on time, but could not access the formal financial system for example because they had informal jobs or lacked collateral. With a \$10 million loan from OMJ, Financiación Social aims to bring 190,000 more people into the formal financial system by 2015.

OMJ loans typically range from \$5 and \$10 million with tenors of up to 15 years, and are provided at market rates. OMJ financing typically covers between 25 and 40% of the project cost. In addition to financing, OMJ mobilizes grant funding to cover technical assistance projects such as capacity-building, feasibility studies, and pilots. By mid 2009, the initiative had exceeded \$100 million in approved loans and credit guarantees, and anticipated reaching the full \$250 by the end of 2010.

Alongside its financing and technical assistance activities, OMJ also works to promote the concept of inclusive business through partnerships such as the Network for Inclusive Markets (with the World Resources Institute and the AVINA Foundation) and the Global Impact Investing Network (with the Rockefeller Foundation and a host of other partners). Most recently, IDB has initiated a Corporate Leaders Program, which will work with intrapreneurs within large firms to develop new inclusive business plans.

Source: Information accessed from institution's websites and materials.

Bilateral donors

Members of OECD's Development Assistance Committee have employed a variety of new strategies, engagement models, and financial and technical assistance facilities to promote private-sector development and to leverage private resources in efforts to meet the Millennium Development Goals (MDGs) and enhance humanitarian assistance. A 2009 study by the U.S.-based Business Civic Leadership Center reviewed the private sector engagement strategies of 10 bilateral agencies that account for some 75 percent of ODA.¹⁵ It found that all of these agencies had increased the resources focused on the private sector and a majority had established dedicated units, funds and initiatives to partner with business. In 2010, USAID, DFID, the Swedish, Dutch, German and Australian development agencies all made public announcements of either an increase in funding for private sector development or the creation of dedicated units to support market-based solutions and cooperation with the private sector.

Some donor governments have also played a crucial convening and funding role in supporting initiatives to promote more responsible global business standards and practices in areas such as human rights, labor and the environment. They have done so through a combination of:

- Funding responsible business initiatives within multilateral organizations – such as the work of the UN Secretary-General's Special Representative on Business and Human Rights and the UN Global Compact;
- Supporting the work on nonprofit organizations that are either playing a watchdog role in promoting greater corporate responsibility and accountability, or establishing more market-based approaches such as competitive rankings, indices and certification schemes. One successful example of the latter is the Access to Medicines Index, which is a Dutch-based nonprofit foundation that has developed and promoted an annual ranking of pharmaceutical companies based on their commitment and performance in improving access to medicines. Another successful example has been the Publish What You Pay campaign, which has influenced the growing movement towards accountability and transparency in the mining and energy sectors. Donor agencies have also been active supporters of ethical trade initiatives and NGOs working in the area of improving factory and farming standards.
- Convening new multi-stakeholder initiatives. Some donors have also created new corporate accountability initiatives that are either hosted in the donor agency or incubated there before being established as an independent entity. The Extractive Industries Transparency Initiative and the Medicines Transparency Initiative are two examples.

Three of the most strategic types of intervention that bilateral (and other) donors can take to overcome barriers to building more inclusive markets are as follows:

- Establishing dedicated units focused on private sector development or inclusive markets
- Creating challenge and innovation funds
- Building or strengthening market-based intermediaries in developing countries.

Boxes 8, 9 and 10 illustrate some of these in practice. A few of them, such as GTZ's Public-Private Partnerships Program, USAID's Global Development Alliance and DFID's Challenge Funds have now been underway for 10 years and offer useful lessons on what has worked and what has not, having catalyzed some 3,500 projects between them.

Box 8: The Creation of Dedicated Partnership and Business Alliance Units:

The examples of GTZ, USAID and Danida

GTZ's Public Private Partnership Program

GTZ supports engagement with the private sector through the agency's Public Private Partnerships unit. Since inception in 1999, GTZ has dedicated 87.8 million Euros to partnerships, acquiring commitments of more than 115.8 million Euros from private partners and 34.8 million Euros from third parties, totaling 238.4 million euros dedicated to public-private partnership programs. GTZ works with business associations and individual firms in developing countries to develop, finance and implement jointly. GTZ has supported more than 500 projects through its PPP program.

Partnerships range from facilitating launch of small or medium enterprises to broader sector or systems alliances that tackle a far reaching public problem. A growing number of projects are multinational – thus far, around 10 per cent of GTZ PPP projects, with total funding of around 49 million Euros, are being implemented on a multinational basis. GTZ has supported PPPs focused on rural electrification, provision of social security, establishing distribution and trading programs for agriculture and developing local qualification programs for consumer goods industries.

USAID's Global Development Alliance

Since its founding in 2001, the Global Development Alliance at the US Agency for International Development has formed and supported more than 680 alliances with 1700 distinct partners, leveraging over \$9 billion. GDA's are intended to pair U.S. foreign assistance with the resources, expertise and reach of the private sector. Alliances are not limited to private sector actors, however. GDAs involve corporations, foundations and NGOs to solve public problems and create value. USAID considers the most significant aspects of GDAs to be the scalability and sustainability of the projects undertaken. GDA supports a training program for foreign service officers across their system, training them in how alliances work, and how to conquer logistical issues like procurement, negotiation and risk management. The training program has helped to limit disruption of alliances caused by the rotation system of the officers. The USAID model, "relies upon market-based solutions to advance broader development objectives." Partnerships range from supporting social innovators in the Middle East with Synergos to the Municipal Development Program in Angola with Chevron to facilitate local development and improve relationships between local communities and governments.

Danida's Innovative Partnerships for Development program

In 2008, the Danish Government was one of the first in the world to publicly announce a national 'Action Plan for Corporate Social Responsibility'. Its aim is to promote corporate responsibility both at home and abroad and to help Danish companies reap benefits from being at the vanguard of international good practice in areas of social and environmental excellence. In addition to working with its companies domestically, the government has developed a number of programs and funds to create incentives for Danish companies to invest in and develop inclusive business models and environmental solutions for developing countries. The Ministry of Foreign Affairs of Denmark, through its development agency Danida has established the Innovative Partnerships for Development (IDP) Program. The core goal of the IDP program is to support partnerships between Danish companies and the private, public and civil society organizations in developing countries and to help companies make innovative, commercially viable business investments that support development in these countries. The program offers several facilities to provide companies with advice, technical assistance and information on co-financing opportunities. These include a Strategic CSR Facility, a Base of the Pyramid Facility and the Danida Business-to-Business (B2B) program. In addition to working with companies and developing country partners on a bilateral basis, Danida has also been a key partner in supporting multilateral government initiatives aimed at spreading responsible business standards in the areas of human rights, labor and the environment.

Box 9: Creating challenge funds and inclusive business facilities:

The examples of DFID, AusAID and DANIDA

Increasingly used by bilateral donors, private sector challenge funds make grants available to firms that need extra support to develop new, pro-poor or inclusive business models. Support is awarded on a competitive basis and can be financial or in-kind, in the form of technical assistance.

Whereas most aid money flows through governments or not-for-profit channels, private sector challenge funds enable donors to drive development through commercially viable business models. While not all investments will succeed, those that do will be self-sustaining and have the power to go to scale – without further infusions of aid. For example, the UK Department for International Development's Financial Sector Deepening Challenge Fund catalyzed a number of successful models, including Vodafone's well-known M-PESA service in Kenya. M-PESA now reaches more than 18 million people with secure and convenient mobile money transfer and increasingly other services as well, such as savings (in partnership with Equity Bank) and crop insurance (in partnership with Syngenta). More than \$375 million flows through the M-PESA system every month.

Private sector and inclusive markets challenge funds have been organized around specific development priorities (like financial inclusion, SME development, and agriculture) and around particular countries or regions (such as Ghana, Zimbabwe, VietNam and the Pacific and Southeast Asia). The UK Department for International Development (DFID) has been a leader in the use of challenge funds, with the Australian Government Overseas Aid Program (AusAID), the Danish Ministry of Foreign Affairs (Danida), and the Netherlands Ministry of Foreign Affairs (NMFA) also creating or contributing to a number of funds.

Examples of include:

- **Business Innovation Facility (BIF):** Capitalized by DFID, BIF targets companies wishing to develop inclusive business models in Bangladesh, India, Malawi, Nigeria, and Zambia. The facility offers financial assistance to help cover the costs of feasibility studies and implementation plans; partnership brokering; and knowledge-sharing.
- **Africa Enterprise Challenge Fund (AECF):** AECF is a \$50-100 million fund capitalized by DFID, AusAID, NMFA, the Consultative Group to Assist the Poor (CGAP), and the International Fund for Agricultural Development (IFAD). The fund is intended to strengthen value chains that link rural areas with local and international markets, with specific focus areas such as research-based agribusiness, renewable energy, rural financial services, and development corridors.
- **Enterprise Challenge Fund for the Pacific and Southeast Asia (ECF):** An initiative of AusAID, ECF has provided AU\$14.5 million to seed business ventures with pro-poor outcomes that cannot obtain commercial financing. Investments have included agribusiness, financial services, and other projects intended to create jobs and market linkages for low-income individuals and entrepreneurs.
- **Innovative Partnerships for Development (IPD):** Danida's IPD program includes a Base of the Pyramid (BOP) Facility which supports Danish companies and their developing country partners to develop business models that offer quality products and services to low-income consumers within the framework of the Millennium Development Goals. The facility contributes up to 60% of the costs of partner

identification, research, education and training, equipment, technical assistance, and knowledge-sharing.

A variation of challenge funds is donor-led or supported prizes, awards and development marketplaces, where companies and in many cases social enterprises and market-oriented nonprofit organizations can apply for financial awards and technical assistance focused on particular development challenges and/or regions. The G20 SME Finance Challenge; the World Bank's Development Marketplace and the World Bank, AFD, Gates Foundation 'Marketplace on Innovative Financial Solutions for Development' are all examples of this emerging model.

Sources: Donor agency websites and published materials

Box 10: Strengthening developing country institutions to make markets work for the poor (M4P): The ExampleS of the FinMark Trust and TradeMark East Africa

The FinMark Trust

In 2000, DFID and SDC funded the development of an analytical framework to guide interventions to make market systems more inclusive of the poor – to enable the poor to participate in and benefit from formal economies. The framework they developed is summarized in Part One of the report.

Since then this framework, “Making Markets Work for the Poor” or M4P, has been used in programs ranging from the business services sector in Bangladesh (Katalyst) to the apparel, tourism, and agribusiness sectors in Southern Africa (ComMark).

A particularly successful example is South Africa’s **FinMark Trust**, whose mission is “making financial markets work for the poor.” FinMark was set up in 2002 as an independent trust with an initial 5-year, £5 million grant from DFID, which has since been extended. DFID occupies an observer’s seat on the Board, which comprises 5 well-respected local trustees including FinMark’s full-time CEO.

FinMark is headquartered in Johannesburg, and a significant portion of its activity and impact have taken place in South Africa, where a confluence of political and social factors such as the end of apartheid and Black Economic Empowerment (BEE) legislation created an environment ripe for its work. However, FinMark’s original remit spanned Botswana, Namibia, Lesotho, and Swaziland as well and now the organization has even more of a pan-African orientation.

FinMark functions as a think tank, engaging in policy advocacy and facilitating business-government dialogue on the basis of internationally-recognized research and analysis. The organization has also transformed its research into a number of

practical tools. FinScope, for example, measures the degree to which poor people’s financial services needs are being met by the market, and enables private sector players to develop new services that expand the access frontier. In Namibia, for instance, Bank Windhoek used FinScope to develop a low-income savings product; in Zambia, African Life Assurance Zambia used the tool to develop a funeral insurance policy for the informal sector. Another tool, Policy Lens, helps determine the impact of proposed legislation, and was used to evaluate the Banks Act, the Dedicated Banks Bill, and the Cooperative Banks Act.

To a more limited extent, FinMark provided incentives for innovation to private sector firms developing new financial products and services for low-income markets. For example, the organization provided subsidized technical assistance to mobile transactions provider Wizzit in the company’s start-up phases.

FinMark sees itself as a transitional institution which will phase out as and when the desired changes are achieved. Already FinMark has spun off two stand-alone organizations, the Center for Financial Regulation and Inclusion focused on financial regulation and the insurance sub-sector in South Africa, and FinMark Trust Zambia Ltd, a dedicated entity whose mission is making financial markets work for the poor in Zambia.

TradeMark East Africa (TMEA) was

established in 2010 with support from the governments of the United Kingdom, Denmark, Sweden and Belgium to support the East Africa Community Secretariat, and East African governments, companies and civil society organizations to advance and benefit from the process of economic integration in East Africa. The initiative is based in Nairobi with offices throughout the region. It aims to provide a multi-donor platform for scaling-up grant assistance to East Africa on regional integration, transport corridors and trade-related infrastructure, trade facilitation, export development, regional investment, and coping with the social and environmental adjustment costs of deeper integration and rapid export-led growth. By 2015, TMEA is aiming to reduce transport costs by 15 percent and increase the share of intra-regional trade as a total of East African trade by 25 percent.

A key component of TMEA’s mandate is to support business and civil society to make a strong contribution to progressing the regional integration agenda, recognizing that their involvement is a vital element in ensuring that trade integration is sustainable and poverty reducing. TMEA aims to provide long term financial and technical assistance to key organizations to enable them to provide important input and analysis on the regional program.

New donors

A shift in the balance of global economic power has led an increase in development resources coming from countries such as China, India, South Korea, Turkey, Brazil and the oil-rich Gulf States. This has led to substantial growth in south-south cooperation: aid, trade and investment to developing countries from these new economic powers. Many of these new development partners are focusing their efforts on infrastructure, private sector development and economic growth.

From 1995 to 2008, net official development aid (ODA) disbursement from new donors increased from US\$1 billion to US\$14.3 billion, and from 1.7 percent of total public global aid flows to 11.8 percent. According to some estimates, they will provide 15-20 percent of the world's ODA by 2010.¹⁶ If south-south trade and investment flows are added to this number the change is substantial. In the case of Chinese aid and investment in Africa, for example, from 2002 to 2007, China offered over US\$33 billion worth of government-sponsored aid and investment, over half for infrastructure projects, to African countries.¹⁷ China's bilateral trade with Africa is now estimated at US\$107 billion-a-year, and in 2009, "the Chinese Ministry of Commerce reported that about 1,000 Chinese enterprises do business in Africa, spanning fields such as extractive industries, trade, transportation, agriculture, and processing of agricultural products."¹⁸

The growing importance of south-south cooperation, both between governments and between companies in middle-income and low-income countries cannot be underestimated. It is still unclear what the implications will be for pro-poor growth and sustainable development, but this is clearly a trend that requires greater analysis in the coming years. Likewise there is a need to better understand some of the collaborative platforms and business partnership models that are starting to emerge. One example is the **China-Africa Business Council**, which was launched in 2005. Its joint founders were the China Society for the Promotion of the Guangcai Program, UNDP, the Chinese Ministry of Commerce and China International Center for Economic and Technical Exchanges. The Council has been established as an NGO and views non-state owned businesses as its key participants. CABC's stated aim is to build direct business linkages and technical cooperation between Chinese and African companies, including the sharing of business standards embodied in the UN Global Compact's 10 Principles for human rights, labor, the environment and anti-corruption. It has initially focused on Cameroon, Madagascar, Namibia, Ghana, Mozambique, Nigeria, Tanzania and Kenya. Similar collaborative platforms are beginning to emerge between India, Brazil and Africa.

III. PHILANTHROPIC FOUNDATIONS

Private philanthropic foundations working in the field of international development and humanitarian assistance can play a vital role in helping governments, private enterprises and the poor to overcome barriers to building more inclusive and sustainable markets.

Foundations are usually independent, nonprofit entities with a clear social mission. They have the advantage of not needing to answer to short-term shareholder demands or the short-term pressures of electoral cycles. And in an era following unprecedented private wealth creation, many of them have substantial resources to contribute, either as grants in meeting humanitarian needs or as social investments in catalyzing social innovation.

These factors enable many private foundations to take the long-term perspective that is often essential for sustained development to occur. They make it easier for foundations to take risks. They also facilitate ‘market-making’ and ‘gap-filling’ activities – enabling foundations to address problems that are due to market failures or governance gaps, and that are not being adequately addressed by either the market or the state.

As Bill Gates points out, “Foundations are not needed in areas where capitalistic market signals work well and the poorest aren’t left out. ...Foundations provide something unique when they work on behalf of the poor, who have no market power, or when they work in areas like health and education, where the market doesn’t naturally work toward the right goals and where the innovation requires long-term investments. These investments are high-risk and high-reward. But the reward isn’t measured by financial gain it’s measured by the number of lives saved or people lifted out of poverty.”¹⁹

There is great variety in terms of foundation governance and operating structures, and in their cultures, experience and theories of change. Some foundations are grant-makers only, financing other entities to implement projects and programs. Others are operating foundations that finance and implement their own projects and programs. And others are a combination of the two. In terms of culture, a growing number of foundations are taking a more performance-driven and social investment or venture philanthropy approach compared to a more welfare-oriented charitable approach – although both are needed and have a role to play.

Some of the foundations most active in global development have been in existence for fifty years or more and have extensive on-the-ground experience, with the Aga Khan, Wellcome, Rockefeller and Ford Foundations, being examples. Others have been created in the past few decades, many based on the wealth created by the global information economy or in emerging economies rich in natural resources.

There is no single global data source on private foundations, although it is possible to get some sense of their aggregate impact from different national and regional databases. Evidence suggests that the number of active foundations has increased markedly over the past two decades, as has the proportion of foundation resources going to international development. In their paper on private development assistance, Sam Worthington and Tony Pippa state, “The number of active foundations

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in the United States increased from just over 22,000 in 1980 to almost 76,000 in 2008; close to two thirds of the larger active foundations were created after 1989. The proportion of resources contributed to international causes has also accelerated rapidly, the total amount increasing more than 70 percent between 2002 and 2007. ...The number of public benefit foundations in 13 European Union countries increased by more than 50 percent – to 95,000 – between 2001 and 2005.”²⁰

At the same time, there is evidence that foundations and philanthropic giving is also increasing within developing countries, especially big emerging markets such as China, India, Brazil, Mexico, Indonesia, South Africa and Turkey, where there is great wealth being created alongside large populations still living in poverty.

Although the number of foundations has increased dramatically, Worthington and Pippa point out that their philanthropic resources are fairly concentrated, “In 2008, only 25 foundations in the U.S. accounted for almost 25 percent of total giving. Also, in 2008, the top 10 foundations in thirteen European Union countries held almost 25 percent of the foundation assets there.”²¹

There are a wide variety of ways that foundations can help to build more inclusive markets and business models that empower the poor as producers, employees and consumers. At the risk of oversimplification, these can be categorized under the following three broad and inter-related areas of action:

1. Strengthening systems and building institutional and individual capacity
2. Catalyzing private innovation and market forces to make markets more inclusive and sustainable
3. Improving quality and use of research, data and information

1. Strengthening systems and building institutional and individual capacity

Foundations can play a relatively neutral convening role in helping to make systems and institutions work better for the poor, as well as building peoples’ individual capacity. For example, they can:

(i) Establish intermediary organizations, platforms and networks

Intermediaries – both market-makers and information-providers – are often important in making markets work for the poor. Recent examples of private foundations helping to establish such organizations include the creation of the Alliance for a Green Revolution in Africa (AGRA) by the Rockefeller and Bill & Melinda Gates Foundation. The Rockefeller Foundation has also been instrumental in establishing the Global Impact Investing Network, to build the field of impact investing. Both of these foundations, together with others such as the Shell, Google and Lemelson Foundations provided seed fund to establish the Aspen Network of Development Entrepreneurs (ANDE), which is dedicated to building the field and leveraging money and expertise to invest in small and growing business in developing economies, that can create both business value and development impact. The work of the Rockefeller and Wellcome Foundations in health systems strengthening is another example.

III. PHILANTHROPIC FOUNDATIONS

(ii) Convene and coordinate interventions along specific supply chains

Linked to the above, private foundations, often working in partnership with large corporations or donor agencies can also help to make specific value chains more inclusive and/or sustainable. The work being undertaken by the Gates Foundation in global health and agriculture is one example. The value chain initiatives it is supporting along with others in cashews, coffee, fruit, cocoa and food fortified provided in Part Four of the report. The Hewlett Foundation is taking a lead in support research and convening joint efforts in the evolving area of agricultural corridors, with its TransFarm Africa initiative, aimed at advancing the spread of sustainable and equitable commercial agriculture along Africa's "Development Corridors". In Latin America, the AVINA Foundation is supporting a number of market-oriented initiatives to build more inclusive markets in different industry sectors and drive market-led solutions to deforestation in the Amazon. Its support for the Amazon Fund and the Forum for the Sustainable Amazon, along with the Skoll Foundation, aims to harness the power of markets to address the inter-related challenges of deforestation, climate change and poverty.

(iii) Directly build the capacity of the poor as service providers, producers, employees and consumers

Foundations can invest in capacity building, education and awareness programs targeted directly at low-income households and communities – especially in areas such as public health, education and financial literacy. They can support the creation or strengthening of cooperatives, community development foundations, and other types of aggregators that give the poor a platform to increase their economic bargaining power and political voice. The Aga Khan Foundation has a longstanding reputation in this area. It has spent many years building community-based institutions, local economic institutions and the individual capacity of local health-workers, teachers and entrepreneurs in the countries where it operates. And in doing so, it has demonstrated the long-term commitment and persistence that is needed in such efforts. The work of the Aga Khan Foundation, and broader Aga Khan Development Network, also offers a useful role model in terms of its longstanding commitment to investing in market-oriented solutions and local enterprises and entrepreneurs, alongside investments in education and social welfare.

2. Catalyzing private innovation and market forces to make markets more inclusive and sustainable

There is growing attention on the role that foundations can play as social venture capitalists. This was reviewed in Part Two in the context of corporate foundations, and is probably even more relevant in the case of private foundations. There are opportunities to leverage foundation assets and balance sheets in new ways through program related investments and mission investing, to support more market-driven approaches to tackling social problems.

(i) Directly investing in social enterprises and promoting social entrepreneurship

A number of private foundations have played a key role in driving new approaches to – and renewed interest in – entrepreneurship as a catalyst for development and poverty alleviation. Leaders have included the Skoll, Schwab, AVINA and Lemelson Foundations and the Omidyar Network and Google.org.

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(ii) Partnering directly with companies to foster research, development and innovation

A small vanguard of private foundations are also partnering directly with universities and individual companies, especially research-based corporations with strong reputations in science and technology innovation for health, agriculture, water management and energy. They are looking at ways to create incentives for commercial enterprises to undertake more R&D focused on meeting development challenges. Some are also supporting efforts to improve science, technology, engineering and math education, both in developed and developing countries. There is untapped potential in these areas, which should be explored further for supporting global development.

3. Improving quality and use of research, data and information

One of the biggest obstacles to building more inclusive markets is the lack of reliable research data and public information on what works and what doesn't. There is also inadequate public information on where and how public revenues and donor funds are being spent. Such research and information provision can help to improve performance and development outcomes, increase accountability of governments, donors and large corporations to citizens, and help to raise public awareness and mobilize additional resources for development.

(i) Investing in research, impact assessment and policy analysis

Many foundations have a record of investing in R&D and supporting policy analysis in key sectors and on key issues. This can be applied more effectively to supporting research, evaluation and policy analysis and dialogue on issues most relevant to global development. There is also the need to continue to address the longstanding challenge of building local R&D and policy capacity within developing countries. Examples of leadership in this area include the The Think Tank Initiative. This foundation-led effort has committed predictable, core funding of US\$90 million over 10 years to 24 independent policy think tanks in the following African countries – Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Nigeria, Rwanda, Senegal, Tanzania, and Uganda. The initiative is supported by the International Development Research Centre (IDRC) in Canada, the William and Flora Hewlett Foundation, and the Bill & Melinda Gates Foundation.

Another example is the European Foundation Initiative for African Research into Neglected Tropical Diseases, a joint effort to fund African scientists who are conducting research on neglected tropical diseases, which affect the lives of more than a billion people. Launched in 2007, participating foundations are: Fondation Mérieux, Fondazione Cariplo, Fundação Calouste Gulbenkian, Nuffield Foundation and Volkswagen Stiftung.

These and similar efforts are needed to improve the quality and quantity of reliable data and information in developing countries and to explore ways that market-based solutions can help to address development challenges.

(ii) Raising public awareness about development and market-based solutions

Another area of growing importance where private foundations are taking a lead is the development of public information campaigns, both within developing countries and in donor countries. These can be crucial for informing and educating the poor about their rights and how to access specific opportunities and essential products and services. In donor countries such campaigns can help to inform voters about the benefits of aid and trade to build the necessary policy advocacy platforms and political will to support budgets in these areas. As illustrated in earlier parts of the report such campaigns, and the use of social media, can also help to mobilize citizens to get personally engaged in supporting international development, through donating funds, volunteering time and buying products that support livelihoods in developing countries. The United Nations Foundation is one example of a private foundation that has played an active role in this area. More could be done.

IV. NON-GOVERNMENTAL ORGANIZATIONS²²

1. Non-governmental organizations as key development actors

The number, diversity, reach and influence of both domestic and foreign non-governmental organizations (NGOs) have grown markedly in most developing countries over the past two decades. This process has been facilitated by the emergence of more democratic and open societies, economic liberalization and unprecedented communications capacity and ability to organize via the Internet and global media.

These NGOs play a vital and multi-faceted role in poverty alleviation and development, with a wide variation in size, scope and type of activity. Millions are tiny community-based organizations staffed by volunteers and local citizens. A small but highly influential number are international networks employing thousands of people with multi-million dollar budgets. They include social and political movements, indigenous peoples' groups, youth organizations, women's groups, environmental, human rights, development and humanitarian organizations, consumer groups, faith-based initiatives, professional associations, philanthropic foundations, universities, policy think-tanks, and scientific and research institutes.

Dr Lester M. Salamon, Director of the *Center for Civil Society Studies* at Johns Hopkins University has argued that, "We seem to be in the midst of a 'global associational revolution' – a massive upsurge of organized voluntary private activity, of structured citizen action outside the boundaries of the market and the state, that I am convinced will prove to be as momentous a feature of the late 20th Century as the rise of the nation-state was of the late 19th Century."²³

NGOs' activities range from the long-term processes of strengthening governance and civil society, supporting sustainable development and facilitating peace building to emergency response and disaster relief. Some focus on project implementation and service delivery, others on research and policy advocacy. Those that implement projects range from the provision of charity and social welfare to NGOs that employ market-based approaches. From a functional perspective, their activities include the following:

- **Advocacy, Analysis and Awareness Raising** – acting as a voice for people both on a representative and self-appointed basis; researching, analyzing and informing the public about issues; mobilizing citizen action through media campaigns and other forms of activism; and lobbying business leaders and policymakers.
- **Brokerage** – acting as an intermediary between different sectors and groups.
- **Conflict Resolution** – acting as a mediator and facilitator.
- **Capacity Building** – providing education, training and information to strengthen individual community leaders and civic institutions.
- **Community Organizing** – helping local leaders and low-income economic actors to organize themselves collectively thereby improving their economic bargaining power and political voice.
- **Delivery of Services** – operational delivery of essential humanitarian, development and/or social services.
- **Evaluation and Monitoring** – serving as a 'watchdog' or third party/independent 'auditor', both invited and uninvited, of government and corporate performance, accountability and transparency.

The *Carnegie Commission on the Prevention of Deadly Conflict* stated in its final report, “Non-governmental organizations at their best provide a vast array of human services unmatched by either government or the market, and they are self-designated advocates for action on virtually all matters of public concern.”²⁴

As with the private sector, domestic NGOs are the essential foundation on which a strong and effective civil society is built. Strengthening the legal and regulatory enabling environment and building the institutional capacity and financial sustainability of these domestic players is an essential pillar for ensuring sustained and inclusive development. At the same time, international NGOs, like their transnational corporate counterparts, play an important role in transferring financial, technical and other resources to developing countries and in sharing lessons and spreading standards and good practices. The combined scale of their activities is significant.

InterAction is the largest coalition of U.S.-based international NGOs. It has over 170 members that collectively account for the majority of private nonprofit resources going to U.S.-supported development and relief programs. It offers the following statistics: “In Fiscal Year 2006, InterAction members collectively had at least:

- \$8.8 billion in total revenue for international programs
- \$8.7 billion in total international expenses
- \$8.0 billion (92 percent of expenses) for programs in developing countries
- 105,004 staff, working in the U.S. and overseas
- 13.6 million individual donors.²⁵

As outlined earlier in this report, *The 2010 Index of Global Philanthropy and Remittances* published by the Hudson Institute estimates that U.S.-based international NGOs transferred some \$11.8 billion to developing countries in 2008 in cash, volunteering and gifts-in-kind.²⁶ This figure does not include religious congregations, foundations, universities and corporate philanthropy, which bring the total to \$33.7 billion.

While U.S.-based NGOs are the predominant source of private development resources going to developing countries they are by no means the only one. A 2010 Brookings paper notes:

“Historically, international non-governmental organizations (INGOs) have had North American or European roots, but increasingly they are a global phenomenon. For example, BRAC, a massive Bangladesh INGO, now has a significant U.S. presence and programs in Africa and throughout the subcontinent. Major INGOs now operate with donations from such diverse publics as the U.S., Canada, Mexico, Brazil, the European Union, India, South Africa, Hong Kong, Australia, New Zealand and Japan, among others. Many of the largest are part of international federations and alliances such as Oxfam International, World Vision International, Catholic Relief Services, and Save the Children International. Estimates put the number of INGO secretariats around 18,000, and the development-focused revenues of the sector now exceed those of the United Nations system.”²⁷

In addition to the growth in diversity and resources of these INGOs, they have also become more independent. The Brookings paper adds:

“It has been common to think of INGOs as implementers of Official Development Assistance, using donor government support to provide public services. Over the past decade, however, shifts in their funding structure have made them independent actors in their own right. Their revenue breakdown now nears 70 percent private contributions against 30 percent government funding, though the ratio of ODA to private funding varies widely across organizations.”²⁸

In summary, both domestic and international NGOs provide substantial financial and in-kind resources for development and poverty alleviation. They are also playing an increasingly important role in engaging with the private sector, both collaboratively and confrontationally, and in support of and against market-based solutions to development. Space permits only a brief overview of some of the ways in which NGOs engage with the private sector, but the following offers a framework for such engagement.

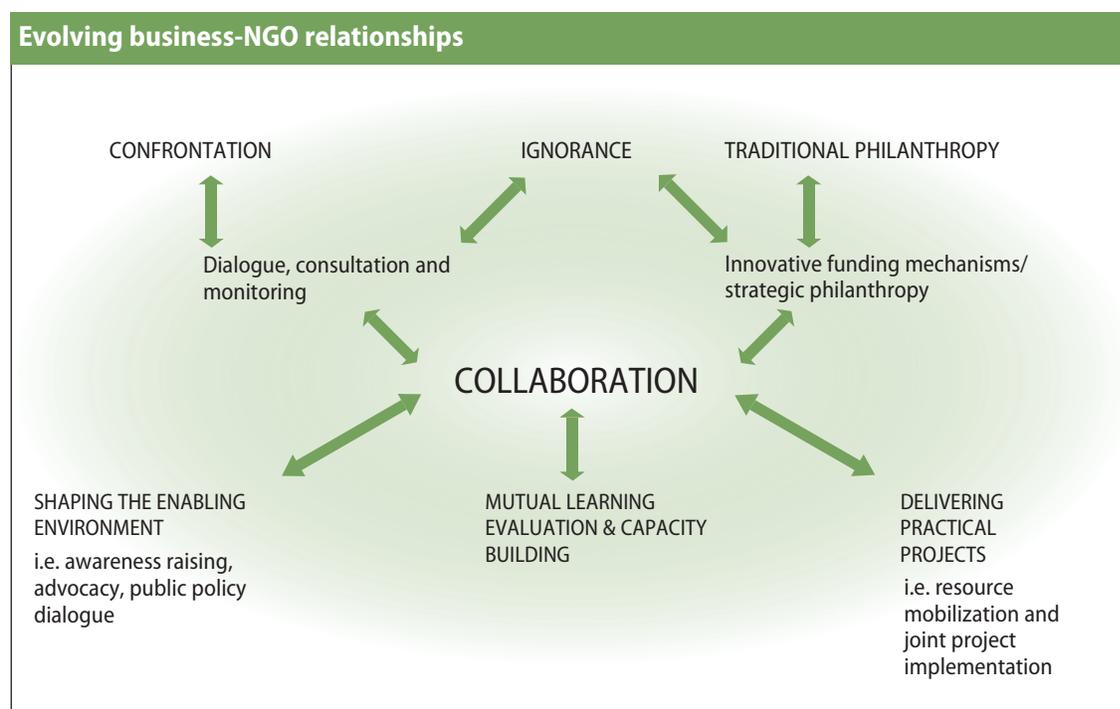
2. NGOs engaging with the private sector

NGOs engage in a wide variety of ways with companies and other private sector actors to achieve development goals. Their engagement ranges from public campaigns against companies or industries that are deemed to be undermining efforts to alleviate poverty, such as the instigation of lawsuits, shareholder activism, demonstrations outside company facilities and media campaigns, to regular consultation and collaboration. Collaboration itself varies widely from community-level partnerships and more traditional philanthropic and volunteering arrangements, to cause-related and social marketing initiatives, to cooperation along corporate value chains aimed at developing market-based solutions, to strategic multi-issue and multi-country collaboration between groups of companies and NGOs aimed at achieving common and mutually agreed goals.

Traditionally, business-NGO relationships were primarily characterised either by: **ignorance or disinterest** (no common agenda or no awareness of a common agenda); **confrontation** (disagreement on key issues and often no willingness to discuss or compromise); or **traditional philanthropy** (the company donating money but otherwise having a ‘hands-off’ approach to the NGO). All three of these modes of interaction or lack of interaction remain valid – and will continue to do so given the enormous diversity in types of NGOs, companies and issues being addressed. At the same time, over the past two decades there have been a number of shifts in business-NGO relations, especially in the environmental arena but increasingly on human rights, health, education and other development issues:

- There has been growing **dialogue and consultation** in areas where there is disagreement or different agendas, with the goal of trying to reach a common agenda or compromise in order to achieve better environmental, human rights and/or development outcomes. In a number of cases, confrontation has evolved not only to more regular dialogue and consultation, but also to formal stakeholder agreements focused on mutual accountability. In some cases NGOs have establishing monitoring and evaluation initiatives and even indices to track and benchmark company performance on particular development issues.

- There has been a trend towards more **strategic philanthropy** and **social investment**, where companies are engaging with NGOs on issues that are more strategic to their own business interests and aligning their philanthropic giving and volunteering to these interests and to core corporate competencies. Such interaction clearly requires closer and more sustained engagement, mutual understanding, mutual benefit and proactive efforts to build trust between companies and NGOs.
- There are increasing examples of NGOs and companies **collaborating** on a sustained and strategic basis along the companies' value chains in ways that are embedded or very closely aligned to core business activities and that are supporting market-based solutions to development. These collaborative efforts range from one-to-one alliances between an individual NGO and company and the type of multi-stakeholder alliances that are profiled in Part Four of the report.



Source: Adapted from Nelson. J, *The Business of Peace*, The International Business Leaders Forum with International Alert. London: 2001

These trends do not mean that a partnership or dialogue between a company and NGO cannot revert back to confrontation, or that there is no longer any traditional, 'hands-off' philanthropy happening. Some of the large international NGOs will be engaging with different companies along the full spectrum of confrontation to collaboration, and even engaging in different ways with the same company at the same time. It does mean, however, that companies and NGOs are recognising the potential benefits of working together to increase the effectiveness and efficiency of addressing common development challenges that are too great for any one sector to address alone.

Campaigning NGOs and trade unions have played a particularly important role in changing societal expectations of business by influencing the views and choices of consumers, employees, investors, regulators, students and the general public. Although public campaigns focused on corporations have been a longstanding feature of democratic and open civil societies, in the past decade they have grown markedly in scope, number and impact as a result of factors such as the increased reach of the global media and Internet, growing public awareness of issues beyond peoples' own immediate community or country, and the growing reach, influence and power, both real and perceived, of business itself.

From the perspective of corporate accountability – at least for companies operating in open, democratic societies – business is increasingly held to account not only in the courts of law, but also in the court of public opinion. A 'court' that is fundamentally shaped by the media and NGOs, ranging from sophisticated global campaigns to grassroots activism. There are a growing number of examples in industry sectors ranging from oil and mining to food and pharmaceuticals, in which companies have faced media campaigns or litigation in which their operations in question have been in compliance with relevant national or international law, but they have been unable to gain sufficient trust or legitimacy from the general public or key stakeholder groups to sustain these operations in an effective and profitable manner. Some NGOs have also established competitive rankings and indices to promote responsible business behavior such as the Access to Medicines Index.

At the risk of over-simplifying a highly varied and complex set of relationships, the following table illustrates four broad categories of engagement between NGOs and companies aimed at improving development outcomes and poverty alleviation:

- Confrontation
- Communication
- Consultation
- Cooperation.

As already outlined, these different categories are not mutually exclusive and often the same NGO and same company will be engaged with each other in several different ways. Equally, there can be enormous variation within each category in terms of the degree, intensity and operational implications of the engagement. Confrontational modes of engagement, for example, can range from major lawsuits to a local media campaign, or from a labor strike or community conflict that slows down a company's operations to one that closes these operations. Likewise, cooperation can range from working together on a specific project in a specific community to a global industry-wide alliance addressing a complex and strategic issue such as revenue transparency, corruption, biodiversity or climate change. All four modes of engagement can be relevant at the local project or community-level, the national level or internationally, and they can be relevant for individual NGO engagement with an individual company, or collective types of engagement involving groups of NGOs and/or companies.

Examples of NGO engagement with the private sector to promote more inclusive and sustainable markets and business models

Mode of engagement	Types of activity
<p>CONFRONTATION <i>Antagonistic relationships</i></p>	<ul style="list-style-type: none"> • Lawsuits, litigation and other legally-driven or supported actions; • Media, on-line and other campaigns targeted at the influencing the reputation of companies • Campaigns targeted at major investors or bankers encouraging them to disinvest from specific projects and/or companies • Examples include: Campaigns against extractive companies for real and perceived environmental and human rights abuses; against the introduction of genetically modified products by agribusiness and life sciences companies; against pharmaceutical companies on access to essential drugs and intellectual property issues; against banks for lending practices that are deemed to undermine development or to exploit the poor etc.
<p>COMMUNICATION <i>One way information flows</i></p>	<ul style="list-style-type: none"> • Regular reporting and/or information availability from the companies or from specific projects. • Site visits for NGOs and community leaders • Independent research studies by NGOs on specific projects, companies or industry sectors. There are several hundred NGO research reports on different industry sectors or individual companies relating to development, human rights and environmental issues. Some underpin campaigns, others are based on the cooperation and engagement of the company itself • NGO-led indices, report cards and public benchmarking initiatives aimed at raising awareness of the comparative performance of companies within specific industry sectors or related to specific development challenges. Often managed in cooperation with the media and online platforms. Examples include the Access to Medicines and Carbon Disclosure Projects)
<p>CONSULTATION <i>Two-way dialogue and structured processes to reach agreement on crucial issues</i></p>	<ul style="list-style-type: none"> • Community or project-level consultation structures. Many companies with a physical 'footprint' in developing countries, especially in the extractive sector, have implemented such structures. • Company stakeholder advisory committees or councils • Strategic, industry-wide or national consultation multi-stakeholder dialogue mechanisms
<p>COOPERATION <i>Formal agreements to work together in a mutually supportive manner</i></p>	<ul style="list-style-type: none"> • Strategic philanthropy, volunteering community investment initiatives that harnesses core corporate competencies and aligns with core business interests – often with a focus on local economic development and entrepreneurship; education and training; health and environmental issues. • Global Trade Union Framework Agreements • Companies and NGOs cooperating directly to build the capacity of low-income producers, consumers and employees or to help them to establish cooperatives and other ways of organizing collectively • NGOs partnering with companies on systemic value chain initiatives • Companies and NGOs cooperating to raise public and/or consumer awareness and funds related to solving development challenges • Partnerships between NGOs and companies to jointly evaluate and monitor the development footprint of companies • Joint research projects, tools development, capacity building or training focused on building more inclusive markets and inclusive business models • Cooperation between companies and NGOs to strengthen the NGO's capacity to deliver key development outcomes through helping to strengthen the NGO's management systems, technology platforms, marketing, communications and fund-raising capabilities etc. • Multi-stakeholder collaboration on more strategic issues, industry standards and public policy at a national, regional or industry-wide level

Source: Adapted from Nelson, Jane. *The Business of Peace*. International Business Leaders Forum and International Alert, 2002 and from Nelson, Jane. *The operation of non-governmental organizations (NGOs) in a world of corporate and other codes of conduct*. Paper prepared for the 52nd Annual Conference Rocky Mountain Mineral Law Institute. 2006.

V. ACADEMIC AND RESEARCH INSTITUTIONS

A growing number of academic institutions, think tanks and research-based organizations are establishing dedicated centers or research programs and creating new curricula and student engagement programs such as internships, service-based learning and study exchanges focused on the role of the private sector in development. Many of these are aimed at supporting research, education, capacity building, entrepreneurship and evidence-based policy making to promote the development of more inclusive and sustainable markets and business models in developing countries.

A small sample of programs that have been established over the past decade include the following:

- **The University of Cambridge’s Programme for Sustainability Leadership (CPSL)** is focused on solving systemic sustainability and development challenges through ongoing engagement with senior-level business leaders, civil society leaders and policymakers. At the heart of the program is the Cambridge Sustainability Network, consisting of active alumni. CPSL offers the following programs: Leaders Groups, policy and strategy groups for senior leaders aimed at achieving systemic change at national or international levels; Senior Executives’ Seminars focused on sustainability issues and strategy in areas such as the environment, climate change, poverty alleviation, biodiversity and ecosystems services and sustainable cities; masters level programs, which offer part-time accredited post-graduate certificates; collaboratories, which are structured and facilitated processes focused on collective problem-solving around specific challenges; applied research; and online learning.
- **The Massachusetts Institute of Technology’s Legatum Center for Development and Entrepreneurship** focuses on studying and building capacity for innovation, social entrepreneurship and market-based solutions as major drivers of poverty alleviation. Its Fellowship program identifies outstanding students from a variety of discipline and supports their studies and initiatives to create enterprise-based solutions to poverty in developing countries. Functioning as an academic program that combines theoretical coursework and practical lab-based and/or in-country fieldwork, the Legatum Center strives to empower entrepreneurs so that they can be agents of positive change.
- **UC Berkeley’s Blum Center for Developing Economies** emphasizes partnership, training its students to work hand-in-hand with development actors. It describes its role as follows: “The Center uses a rigorous, multi-disciplinary approach that corresponds to the complex nature and the intricate web of factors that cause poverty. It integrates innovation and social entrepreneurship to develop appropriate, sustainable solutions to the toughest poverty challenges. The Blum Center brings real-world issues faced by the poor to classroom, the lab and into the field.”
- **The Indian School of Business’s Center for Emerging Markets Solutions (CEMS)** focuses on researching and developing curriculum on business solutions to alleviate poverty and create inclusive wealth in key emerging markets. CEMS takes a systems approach to market-based approaches to tackling development challenges in these economies. There are six main thematic areas of focus: small business and finance; affordable housing and urbanization; education; healthcare; energy; philanthropy. Major emphasis is placed on the linkages between these different areas.

- **Cornell University’s Center for Sustainable Global Enterprise** takes a skill-based, practical approach, working to equip students with the practical knowledge needed to be innovators on the global level. Cornell’s SGE uses an immersion program to support theories learned in the classroom, with students spending time working in low-income communities in developing countries.
- **The University of Michigan’s Base of the Pyramid (BoP) Initiative** is located in the William Davidson Institute for Emerging Economies. It describes its focus as follows: “exploring the implications of BoP perspective for organizational strategy and poverty alleviation. The objectives of the BoP Initiative include creating intellectual capital, developing venues for disseminating the latest knowledge, providing educational opportunities to students and practitioners, implementing activities in the field with our partners, and offering development consulting services to bi- and multi-lateral organizations and foundations.”

These are a small sample of the variety of new centers and academic programs that are being established to promote more inclusive markets and business models. Numerous business schools, schools of public policy and schools of public health are also offering courses focused on these issues and a number are starting to collaborate on joint research projects and student engagement initiatives. Such collaborative efforts include the Aspen Institute’s Business in Society Program; the Global Business School Network, which aims to build capacity of business schools in developing countries; the Social Enterprise Network; the Financial Access Initiative; the Globally Responsible Leaders Initiative, led by EFMD the European-based Management Development Network; and the Principles for Responsible Management Education, led by the United Nations Global Compact.



PART FOUR



Collaborative Leadership to Achieve Scale and Systemic Impact

Dramatically increasing the quantity and quality of inclusive business models and of private sector engagement in tackling poverty will require a dynamic combination of both competition and collaboration. New models of collaboration – from firm-level partnerships to systemic multi-stakeholder alliances – can play a valuable role and they are likely to become an increasingly important component of the global development architecture. The following section provides an overview of some of these models.

I. THE NEED FOR COMPETITION AND COLLABORATION

II. FIRM-LEVEL PARTNERSHIPS

1. Working with existing value chain partners
2. Partnering with non-traditional allies
3. Scaling firm-level partnerships

III. BUSINESS LEADERSHIP COALITIONS

IV. MULTI-STAKEHOLDER ALLIANCES IN ACTION

1. Making value chains more inclusive and sustainable
2. Implementing national and regional development priorities
3. Enhancing the effectiveness of humanitarian and social programs
4. Increasing accountability and transparency
5. Advocating for policy reform



The nature of global leadership in today's world has evolved dramatically. Old patterns and relationships of international influence are fragmenting. Foundations, NGOs, corporations, and governments are less capable of instituting substantial social improvements from the top down or by themselves. Globalization has decentralized leadership, often creating gaps in service and support precisely where the global community's needs are greatest. ... Leadership and influence are nuanced as a consequence. Partnerships are essential and problem-solving must recognize, welcome, and mobilize the resources and actions of others.

Judith Rodin

President, The Rockefeller Foundation

Smart Globalization: Benefiting More People, More Fully, in More Places

2008



I. THE NEED FOR COMPETITION AND COLLABORATION

Part Two provided an overview of some of the key approaches that individual private sector actors are taking to develop market-based solutions and other models of engagement to help alleviate poverty. Each of these models of engagement by individual private sector actors, whether they are large corporations, high-impact entrepreneurs or private financiers, warrants further analysis and experimentation. Part Three of the report provided some illustrative examples of what other development actors are doing to catalyze and facilitate more inclusive business models and markets. Many of these examples provide valuable new models and sources of innovation.

Ultimately, however, no matter how inspiring the individual examples are, they are currently nowhere near sufficient to achieve the scale and systemic transformation that are needed to help four billion people lift themselves out of poverty. There is the urgent need to move beyond pilot projects and individual effort. Dramatically increasing the quantity and quality of inclusive business models and of private sector engagement in poverty alleviation will require a dynamic combination of both competition and collaboration.

Within an enabling policy environment, competition between private enterprises has the potential to play a powerful role in building more inclusive and sustainable markets – and doing so at scale.

Competition spurs investment in research and innovation. It can facilitate the development, dissemination and replication of new ‘game-changing’ technologies in sectors that are important for poverty alleviation such as agriculture, food and nutrition, financial services, information and telecommunications, healthcare, energy, clean water and sanitation.

The search for greater competitiveness and growth can expand opportunity and access to new suppliers, low-income customer segments, and lower cost labor in developing countries.

And competition between firms can ensure continual improvement in the provision of products and services, whether in terms of their ability to meet the needs of low-income producers and consumers in ways that are commercially viable or to meet these needs in a more environmentally sustainable manner.

Yet, despite the hopeful examples that are emerging and some notable areas of transformational impact such as mobile telecommunications, this type of competitive-driven business engagement in poverty alleviation is not happening at the scale needed to make a sustained difference in the lives of millions of poor people. As was outlined in Part One of the report, scale is impeded by a variety of organizational, market development and governance barriers. These barriers result in serious operational and system-level constraints at the level of individual private sector actors and specific value chains in addition to undermining the overall potential of making markets work for the poor more generally. They limit access to information, capacity and finance, decrease the incentives, and increase the real and perceived risks and costs for business to engage the poor as producers, customers and employees. They also make it difficult for companies to internalize the social and environmental costs of their business activities within the current competitive contexts in which most companies operate. At the same time, they make it difficult and costly, if not impossible, for the poor themselves to access formal markets.

System-level constraints such as the lack of an enabling policy and regulatory environment and weak institutions and capital market structures make it difficult for markets to work for the poor in general. Organizational-level constraints and barriers to market development make it difficult for individual inclusive business models to survive, let alone achieve scale and sustained impact.

At the organizational level, traditional mindsets, ‘skill sets’ and management structures prevail in most large organizations in both the corporate and development communities. These often result in metrics and incentives on both sides that are not supportive of new approaches to solving complex, non-traditional business and development challenges. They may also result in distrust or ignorance of each other, which makes it difficult for all but the most determined intrapreneurs to work with non-traditional allies across traditional functional, sector and cultural boundaries.

One of the outcomes of this at the operational level has been that distrust of the ‘profit-motive’ has resulted in many in the development community questioning mainstream business engagement in development initiatives, especially that of large companies. Many rely instead on corporate philanthropy as the primary mode of business engagement – if involving business at all. While corporate philanthropy can be effective and strategic, as demonstrated in this report, it can rarely attain the scale and impact of companies leveraging their core business activities, competencies and resources to tackle development challenges. This requires harnessing the competitive and profit-generating motives of private enterprise.

At the same time, companies themselves have tended to focus mainly on the contribution of their philanthropic activities and on compliance with standards, rather than the links between competitiveness and supporting international development goals. Few have systematically reviewed the overall ‘development footprint’ of their core business activities and value chains. Even fewer have looked at ways not only to minimize negative impacts, but also to proactively explore new business opportunities and competitive advantage through serving the poor or solving a particular social or environmental challenge.

As illustrated in Parts Two and Three, some leading companies and other development actors have started to explore these competitive opportunities more strategically. Yet, they are the exception rather than the norm and there is much untapped potential. It will be difficult, if not impossible, to harness this potential without overcoming a variety of organizational market and governance barriers. Many of these barriers cannot be addressed by individual companies or even governments and donors acting alone – hence the need for collaboration.

The specific obstacles and types of collaboration needed to overcome them will clearly differ depending on the industry sector, value chain, development challenge, policy context and operating environment in question, but collaboration will often be a common theme. Box 1 provides some examples of the type of collaborative solutions that could be used to tackle the three categories of barriers – organizational, market and governance – introduced in Part One.

BOX 1: Examples of collaborative models to overcome key barriers

KEY BARRIERS TO BUILDING MORE INCLUSIVE AND SUSTAINABLE MARKETS

Organizational Barriers

- Inadequate organizational structure and capacity
- Lack of leadership vision or support for new approaches
- Traditional mindset and culture
- Inadequate skills or competencies of relevant staff
- Lack of dedicated staff time and resources
- Lack of metrics, evaluation approaches and inappropriate performance rewards or lack of internal incentives for social innovation and risk-taking.

Market barriers

- Lack of access to appropriate and affordable finance and risk management options
- Lack of relevant market information and price signals
- Misperceptions of risks
- Inadequate institutional and physical infrastructure
- Lack of a supportive enabling environment – weak rule of law, poor regulatory frameworks, lack of property rights, corruption etc. – which in turn is often the result of the governance gaps outlined below.

Governance Barriers (at local, national and global level)

- Weak governance – low public administrative capacity and weak public institutions
- Governance that doesn't serve the poor – policies and regulations that are either unfair, uncertain, uncoordinated or inappropriate and inflexible
- Bad governance – corruption, conflict, cronyism and lack of human rights, political rights and accountability

COLLABORATIVE SOLUTIONS BEYOND INDIVIDUAL FIRMS

Business Leadership Coalitions and Industry Associations

Most organizational barriers need to be addressed at firm-level, but senior-level business coalitions – within sectors and across sectors – can help to raise awareness among top managers, profile best practices, share lessons, provide training and technical assistance etc.

Collectively Developed Measurement Frameworks

Initiatives such as the WBCSD-IFC 'Measuring Impact' Framework, Global Reporting Initiative, Global Impact Investing Network, other stock exchange and investor platforms, and numerous sector-based guidelines and standards are helping to establish common metrics and measurement frameworks.

Joint Financing and Risk-Sharing Mechanisms

■ Sector-based innovation and challenge funds ■ Targeted R&D facilities for essential pro-poor products and services ■ Public-private global program funds ■ Investor networks ■ Risk guarantee funds and initiatives

Aggregating mechanisms and intermediary platforms

- *Poor as Producers*: Common supplier or producer databases; enterprise support centers; producer cooperatives; supplier collection centers and warehouses; shared information and communications technology platforms; brokerage, matchmaking and peer networking events and platforms; guaranteed or advance purchase agreements.
- *Poor as Consumers*: Leveraging existing physical distribution infrastructure and consumer or social networks; information technology platforms; public awareness and consumer education initiatives; demand pooling mechanisms; pooling of consumer risks and assets.
- *Poor as Employees*: Joint workforce development initiatives; vocational training institutions and on-line platforms; shared labor market databases.

Field-Building Initiatives

■ Capital market development for key asset classes and/or sectors ■ Creation of industry standards, buying guidelines, certification schemes etc. ■ Joint research and technical assistance platforms.

Mutual Accountability and Transparency Initiatives

- Sector-based codes, standards and transparency initiatives within industries and key development sectors
- National or Regional – NEPAD African Peer Review Mechanism; Millennium Challenge Corporation
- Anti-Corruption Initiatives and Integrity Pacts

National or Sector Indicators and Rankings

■ World Bank's *Doing Business initiative* ■ UNDP's *Human Development Index* ■ Corporate Responsibility Indices – such as Responsible Investment Indexes (FTSE4Good, Dow Jones Sustainability etc.) and Access to Medicine Index

Collective Business Engagement in Public Policy Dialogue

■ Targeted, pro-poor business leadership coalitions ■ Representative business bodies/ trade and industry associations

Joint Initiatives to Strengthen Public Institutions

Shared training, technology and capacity-building platforms
Common Public Advocacy Platforms targeted at specific development issues in donor countries and developing countries.

In summary, new models of collaboration are essential for overcoming barriers to make competitive business models and markets work more effectively for the poor and more effectively as a driver of environmental sustainability and resilience in developing countries.

Drawing from his work on *Responsible Competitiveness*, Simon Zadek comments, “Collaboration lies at the core of tomorrow’s responsible competitiveness strategies for companies, communities and nations, whether to reach the poor, to secure vital water resources and a healthy workforce, to steward standards to underpin trust in product safety and corporate governance, to drive forward coalitions to fight bribery and corruption, or to mobilize support to strike the global deals needed to advance more competitive low carbon growth and development”.¹

Collaboration between the private sector and other development actors can also be a crucial tool for achieving scale and more systemic impact in development solutions that are not market-based. It can help make philanthropic and humanitarian efforts more effective and expand their reach. It can harness resources to help improve and strengthen public governance and public institutions. And it can support the financing and delivery of global public goods.

Over the past decade three notable trends have emerged in the types of collaborative models that are being built by companies and other development actors to overcome barriers to scaling market-based solutions and to more effectively mobilize private sector resources for development and poverty alleviation.

These can be summarized as:

- ***New models of firm-level partnership*** with both existing value chain partners and with non-traditional allies to jointly pursue development, social and/or environmental goals on either a competitive or non-competitive basis and usually through individual business models, value chains, community projects or philanthropic programs.
- ***New models of collective business leadership*** where groups of companies come together either within the same industry or across industry sectors to jointly tackle social and or environmental challenges.
- ***New models of systemic multi-stakeholder alliances*** among groups of private sector and other development actors to implement system-level solutions to complex and often interdependent development, social and/or environmental challenges aimed at achieving scale on a sector-wide, national, regional or even global basis.

Each of these collaborative models is briefly reviewed in the following pages.

BOX 2: Potential process benefits of collaboration for development

Increasing Efficiency

- Pooling scarce financial, managerial and technical resources, and so eliminating duplication of cost and effort
- Optimizing “division of labor” and burden sharing
- Decreasing costs associated with conflict resolution and disagreement on development policies and priorities
- Creating economies of scale
- Promoting technology co-operation
- Facilitating the sharing of information
- Overcoming institutional rigidities and bottlenecks

Improving Effectiveness

- Leveraging greater amounts and a wider variety of skills and resources than can be achieved by different groups and sectors acting alone
- Seeding or catalyzing market-based solutions that do not initially meet commercial hurdle rates or will never do so due to market barriers
- Creating common standards and a level-playing field, supported by common metrics and systems for monitoring, verification and reporting
- Accommodating broader perspectives and more creative approaches to problem solving
- Addressing complex and interdependent problems in a more integrated and comprehensive manner
- Shifting away from “command and control” to more informed joint goal-setting
- Obtaining the “buy-in” of beneficiaries and local “ownership” of proposed solutions, thereby ensuring greater sustainability of outcomes
- Offering more flexible, responsive and tailored solutions
- Speeding the development and implementation of innovative solutions
- Acting as a catalyst for policy innovation

Enhancing Empowerment

- Improving the level and quality of consultation with other stakeholders in society
- Facilitating broader participation in goal setting and problem solving, especially including the poor and their representatives more directly
- Building the mutual trust needed to work through diverse, often conflicting interests
- Building community-level institutional structures, networks and capacities to enable greater local control of outcomes and resources

Source: Adapted from Nelson, Jane. *Business as Partners in Development: Building wealth for countries, companies and communities*. World Bank, UNDP and International Business Leaders Forum, 1996; and Nelson, Jane and Zadek, Simon. *Partnership Alchemy: New Social Partnerships in Europe*. The Copenhagen Centre, 2001.

II. FIRM-LEVEL PARTNERSHIPS

Formal collaboration is nothing new to private sector enterprises, especially large corporations. No company, no matter how large, operates in isolation. Few can be competitive and successful at scale without undertaking long-term contractual agreements, joint ventures, partnerships and other forms of collaboration with other private enterprises, governments and research institutes along their value chains and within their broader business ecosystem.

As illustrated in almost every individual example profiled in Part Two of this report, a number of leading companies are now starting to harness existing partnerships along their own value chains to support not only corporate strategy and competitiveness, but also to enhance their ability to have an impact on key development, social and environmental outcomes – whether as a strategy to gain competitiveness, manage risks, improve the operating context or explicitly support the public good. Many of the same companies are also creating totally new alliances with non-traditional allies for both competitive, philanthropic and policy reasons.

1. Working with existing value chain partners

First, companies are looking at the potential of their existing value chain relationships, which in the case of large corporations can be extensive. Microsoft, for example, has some 750,000 partners in its business ecosystem. The Coca-Cola System consists of the Coca-Cola Company and more than 300 bottling partners, most of them independently owned, which in turn work with thousands of suppliers, distributors and customers, from large supermarket chains to tiny micro-enterprises, enabling the system to produce and deliver its 3,000 beverage brands in over 200 countries at a rate of 1.5 billion servings a day. Unilever sources the raw materials and packaging for its products from more than 10,000 suppliers and non-production goods and services from some 100,000. Wal-Mart has an estimated 100,000 suppliers. In all four cases, and hundreds of other companies like them, these companies are individually starting to work on a more systematic and strategic basis with their key business partners, especially suppliers, to jointly achieve broader development, social and environmental goals.

Most infrastructure, utilities and extractive companies in the energy and mining sector also enter into long-term joint ventures with their major competitors and host governments to implement multi-million dollar projects in developing countries and have done so for many years. Again, they are starting to leverage these existing ‘bilateral’ or joint venture business relationships to address key development challenges at the level of individual projects, communities or regions.

Science and technology-based companies have long-standing and multi-dimensional partnerships with research institutes and universities, and many are already targeting some of these to jointly address global challenges from tackling poverty to climate change that have not traditionally been in the realm of commercial R&D efforts.

Companies in several industry sectors are also working with their existing trade unions to develop new types of global framework agreements between the company and trade union in order to scale impact and improve working conditions on a more systematic and constructive international basis, including in developing economies.

In short, leading companies are starting to leverage their existing value chain partnerships to develop market-based solutions to a variety of development, social and environmental challenges. The scaling potential of such firm-level partnerships with existing business or value chain partners is high.

2. Partnering with non-traditional allies

At the same time, leading companies are also exploring more strategic collaboration with non-traditional allies, in particular non-governmental organizations in the development, environmental and human rights arenas, private foundations, official development agencies, and community-based organizations. Many of these non-traditional partnerships have the explicit goal of jointly developing new market-based solutions to tackle complex challenges such as poverty, climate change, other forms of environmental degradation, human rights abuses and conflict prevention and peace-building.

We are also witnessing some non-traditional business-to-business (B2B) relationships at the firm-level. Information and communications technology companies are working with financial institutions, for example, to expand access to finance and market information. Mining and energy companies are developing agreements with pharmaceutical companies, microfinance intermediaries and local community organizations to expand their workplace health services to larger populations in surrounding communities, and with local media companies to raise awareness of key public health issues. Food and agribusiness companies are working with local banks, insurers and microfinance intermediaries to help small-scale farmers gain access to financial services and risk management tools, and with infrastructure companies to improve rural infrastructure, decrease post-harvest food losses, and strengthen the resilience of food value chains.

3. Scaling firm-level partnerships

Almost every example cited in this report involves some combination of firm-level partnerships either between the company and its existing business, government and research partners, or between the company and non-traditional allies. Literally thousands of such partnerships already exist, the vast majority of them less than ten years old.

Many of these partnerships are focused on expanding the development impact and gaining competitiveness or on managing risk and minimizing negative social and environmental impacts of the company's core business activities and value chain.

At the same time, these firm-level partnerships – especially with non-traditional partners – are also playing a crucial role in making corporate philanthropy, volunteering and community engagement more strategic and scalable. And they have been essential in almost every successful example of individual companies creating hybrid models that combine both commercial resources and goals with social assets and objectives.

The proliferation of these firm-level partnerships offers one important pathway to scaling the impact and sustainability of market-based solutions to development, social and environmental challenges.

Proliferation can occur within the value chains and business subsidiaries of the individual companies that are already leading the way – either through the company broadening or deepening its existing partnerships by expanding their reach and scope and replicating them in more locations, or through the company creating new partnerships with both traditional and non-traditional partners that are focused on finding solutions to tackle development, social and environmental challenges.

Another approach to scaling at the level of the individual firm will be to move beyond the leading companies to engage many more private enterprises in implementing such partnerships especially those based in developing countries themselves.

Consider the potential impact, for example, if the top 20-50 large domestic and foreign companies in each developing country engaged in a systematic effort to first, review and harness their existing business partnerships to expand the development footprint or multipliers of their current business activities, and second, to explore a few non-traditional strategic partnerships along their value chain or through their philanthropic efforts. Some of the collective national business initiatives described in this section are implementing versions of this approach, but the untapped potential remains immense.

Depending on the type of value chain and context, governments can create incentives for such firm-level partnerships, from innovation funds and tax incentives to industry charters and covenants. Donor agencies and private foundations can also work with individual companies or development partners such as NGOs, social enterprises and community-based organizations to help convene and facilitate these firm-level partnerships and support start-up efforts through challenge and innovation funds, aimed at making them viable from both a business and development perspective. The examples of the business challenge funds created by the UK Department for International Development and the Aga Khan Foundation's work enhancing the development impact of companies in the Aga Khan Development Network are outlined in Part Three.

The second trend in new models of collaboration also offers potential for scaling up the development contribution of markets and the private sector, and is the main focus for the remainder of this chapter.

III. BUSINESS LEADERSHIP COALITIONS

One important trend over the past decade has been the emergence of systemic alliances between major competitors in the same industry sector. From promoting fair trade and environmental sustainability in agricultural commodities to improving working conditions in factories and advocating for clearer price signals on carbon, even the best intentioned companies can only get so far individually. A number of leading companies are engaging in system-level collaboration with other key private actors in their industry sector, often competitors, in order to level the playing field and achieve scale. In many cases, as illustrated in some of the following examples, government entities, foundations and social enterprises play a vital convening role to enable such collaboration between competitors.

It is worth noting the important, but different role that is played by representative business bodies, such as Chambers of Commerce, Employers Organizations and trade and industry associations. A very brief overview of this role is provided in Box 3.

In a number of developing countries and industry sectors these representative business associations make a vital contribution to development and to improving the ethical, social and environmental performance of their members. This contribution could be further enhanced through greater support from their counterparts in developed countries, and from multinational corporations and donor agencies. Despite this important role, traditional representative business bodies are not the focus of the business-led alliances and leadership coalitions profiled in this section. The examples in this section are primarily initiatives that bring together groups of companies, either on their own or with other development actors, with the explicit and in most cases *dedicated purpose* of directly tackling issues related to corporate responsibility, development and poverty alleviation.

Professor David Grayson, Chair of Corporate Responsibility at Cranfield School of Management, notes, “A variety of factors drive society’s increased expectations of business. One factor has been the creation in many countries of business-led coalitions promoting corporate responsibility. These coalitions can play a variety of roles including agenda-setter, broker between companies and causes, identifier and disseminator of good practices, and standards-setter. The coalitions are part of civil society and an emerging civil economy, whilst also being business-led and aligned to business concerns and capacities. They are helping to change business behavior and are influencing ideas about the purpose of business and how business interacts with other parts of society.”²

Business leadership coalitions usually consist of one of the following voluntary models, although there are not always clear boundaries. Most of them operate at the level of Chief Executive Officers (CEOs) or senior executives with company-wide responsibility for social and environmental performance. They are often established as independent nonprofit organizations and many play a vital intermediation role between the formal private sector, the government and/or development actors and low-income communities, producers and consumers. All of them established with the explicit and dedicated goal of collectively engaging business leaders and the resources and value chains of their companies to support social, environmental and/or development goals:

BOX 3: Representative business bodies as national and global development actors

The mission of chambers of commerce, employers organizations and membership-based trade and industry associations in most countries and sectors, and at the global level through bodies such as the International Chamber of Commerce (ICC), the International Organizations of Employers (IOE) and international industry organizations, is to represent the business interests of their members in policy dialogues and rule-making, and to serve as networks – sharing contacts, offering training, undertaking research, disseminating tools and business services, and so on. As with all institutions, their quality and influence varies widely depending on the

political and economic context in which they operate, the strength of the industry sector or sector(s) they represent, and the leadership of both the institution itself and the business members that it serves. Those that are progressive and influential are a vital component of the institutional infrastructure that is needed for effective private sector development and competitiveness.

In recent decades, as issues such as climate change and the environment, human rights, labor standards, global health and education have become more central to core business interests, risks and opportunities, a growing

number of these representative industry bodies have taken a more direct leadership role on these issues. Some, by their representative nature, adopt generally conservative positions on global development and environmental issues in order to meet their broad member interests, and may obstruct progress towards more inclusive and sustainable markets. Others are more progressive, depending on the sector and issues at stake. Four areas where these representative bodies play an especially important role that warrants support from governments, donor agencies, foundations and other business networks are as follows:

1 Building business associations in developing countries:

Chambers, employer organizations and trade associations based in developing countries themselves have a particularly crucial role to play – at a minimum advocating for and supporting a sound business climate, let alone addressing broader issues related to the role of business in poverty alleviation. Most have limited resources and capacity compared to their developed country counterparts, but some are nonetheless running programs in areas such as workplace training on HIV/AIDS, business linkages with small and micro-enterprises, cleaner production and so on.

2 Spreading global norms, guidelines and standards:

Trade and industry association efforts to improve social and environmental practices have grown in the past decade. Examples that have scaled to a global level include the Responsible Care Program led by the International Chemical Industries Association, which grew out of the industry's response to the Bhopal industrial accident in India in 1984, and the International Council of Toy Industries' CARE Process, which aims to improve working conditions in toy factories, with a focus on China. In both cases the industry associations require members to sign-up to these initiatives. There is scope in all industry sectors to do more.

3 Sharing tools, good practices and building capacity:

Associations can implement programs, establish centers, and produce reports and training for their members that focus on these issues. The Confederation of Indian Industry, for example, offers a variety of development initiatives to its corporate members, with the goal of ensuring that the country's impressive growth is made more inclusive for all Indians. These programs range from rural development and disaster management to education and skills development and partnerships with NGOs. Another example is the Business Civic Leadership Center, in the US Chamber of Commerce, is an example. BCLC runs programs on business and international development and engages member companies around challenges such as humanitarian response in the United States and internationally, community engagement and education.

4 Engaging in regional and global policy dialogue and rule-setting:

Representative business associations have been increasingly active at the global level representing industry positions in major conferences from the WTO Doha Trade Negotiations to the UN Copenhagen Climate Summit. A few, most notably the IOE and ICC, have permanent representative status with the UN system – the IOE being part of the International Labour Organisation's governance structure for over 50 years.

1. **Industry-specific coalitions** – where companies from a particular industry come together either globally or nationally to address systemic development and/or environmental challenges that are most relevant and material to their industry sector. Examples include the International Council on Mining and Metals (ICMM); E7 (the major electricity companies focused on development issues); IPIECA (the global oil and gas industry association for environmental and social issues); and the Equator Principles (bringing together the project finance banks).
2. **Cross-industry coalitions focused on a specific issue or set of issues** – where companies join forces, either globally or on a national basis to tackle a clearly defined and specific development challenge. The Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria is an example, which brings together over 200 corporations from around the world to leverage business engagement in tackling these specific disease burdens. Likewise, the fifty or so national business coalitions that have been established within countries to tackle these issues. The Initiative for Global Development is another example mobilizing corporate leaders from different sectors (and mostly from the United States and Africa) to support aid, trade and investment objectives.
3. **Cross-industry leadership coalitions focused on a variety of development challenges** – where companies cooperate at different levels (i.e. global, national, local), in different geographies and on a range of issues. Examples include the World Economic Forum and its global corporate leadership group; the International Business Leaders Forum; the World Business Council for Sustainable Development; Business for Social Responsibility; the Initiative for Global Development and its Frontier 100 program; the Committee Encouraging Corporate Philanthropy; and the World Environment Center.
4. **Cross-industry coalitions focused on a specific region** – where companies cooperate on development issues either within a geographic region or focused on a geographic region. African examples include the Africa-based NEPAD Business Group; the US-based Corporate Council on Africa; the UK-based Business Action for Africa; and the China-based China-Africa Business Council.
5. **National cross-industry coalitions** – where companies from different industry sector join forces in a particular country to address systemic development and/or environmental issues most relevant to that location. Examples of such initiatives are being established in a number of developing countries from Vietnam, Indonesia and the Philippines to Tanzania, South Africa and Brazil. Box 4 gives the examples of three such coalitions, The National Business Initiative in South Africa and Philippines Business for Social Progress and Instituto Ethos in Brazil.

Box 4: Corporate leaders collaborating to support national development goals in South Africa, the Philippines and Brazil

South Africa's National Business Initiative

Purpose and origins:

The South African business community played an important policy advocacy and facilitation role in the country's transition to democracy in 1994. The Urban Foundation, created by business leaders in 1977 after the Soweto riots, was active for almost twenty years in publicly tackling a number of major legal and economic empowerment barriers faced by black South Africans and privately urging political leaders to accept a transition to majority rule. The Consultative Business Movement (CBM), created by business leaders in 1987, worked with churches, organized labor and the major political parties to negotiate the 1991 National Peace Accord and was then invited to provide administrative and secretarial support, as well as some essential facilitation, for the constitutional negotiations.

After South Africa's first democratic elections in 1994, attention turned to the massive challenge of social and economic transition, and particularly poverty alleviation in the face of enormous income gaps and equally high expectations by the newly enfranchised population. In 1995, CBM and the Urban Foundation joined forces to address this challenge by creating the National Business Initiative (NBI). Their explicit goal was to harness the resources of the private sector on a voluntary and collective basis in order to promote increased economic growth, reduce poverty and inequality, and support effective and efficient governance.

Funding, governance and management structure:

From the outset NBI has been funded and governed by senior executives of South Africa's major domestic companies and foreign investors. A business-led board of directors and numerous task forces and regional leadership groups guide the strategy and monitor the performance of the

organization. Most of the members are corporate chief executive officers. Over 120 companies participate in NBI and provide financing, governance, technical assistance and practical support for project implementation.

NBI also serves as the secretariat to the Big Business Working Group, a group of business leaders who meet on a regular basis with the President to address issues affecting the country's investment climate and development prospects. This group cooperates with, but is totally independent of the country's major representative business associations. In recent years it became the local implementation partner for the World Business Council for Sustainable Development, the United Nations Global Compact and the Carbon Disclosure Project. It has also created several initiatives that have been spun-off into independent business-led entities – most notably the Business Trust and Business Against Crime.

Core activities:

NBI's activities range from on-the-ground execution of projects to policy engagement and efforts to strengthen public institutions. Initially it focused on improving education and housing delivery and tackling crime. Today, NBI's programs address three critical development challenges: education and skills; economic growth and equity; and sustainability, especially energy and climate issues.

Its education and skills programs focus on strengthening the leadership, management and governance of public schools and colleges, and on teacher training and support. The latter targets teachers in subjects that are essential to economic growth and poverty alleviation, such as math, engineering and technical skills, and they are supported by key industry sectors such as mining, steel,

construction, travel and tourism. Companies in the relevant sectors provide a combination of funding support, technical assistance, mentoring and internships.

NBI has also created a business linkages initiative to support collective action by large companies in improving access to finance, business development services and markets for small and medium enterprises. On the sustainability front, it has facilitated the establishment of an Energy Efficiency Accord, which is supported by over 40 leading companies and industry associations and the Minister of Minerals and Energy and aims to improve energy efficiency and reduce carbon emissions in major sectors.

Pathways to achieving scale and systemic impact:

In almost all of its focus activities, NBI aims to leverage the collective impact of its corporate members either by replicating successful pilot projects, partnering with government implementation agencies at the national, regional and municipal level, or working with Ministers and policy makers to embed successful approaches into national policy frameworks or institutions. Several of its programs have been independently evaluated and it can point to a number of key legislative and policy changes in areas such as education and housing that have directly resulted from NBI's intervention. Close to a million students have been reached by NBI's key education initiatives and some 10,000 jobs created through the business linkages initiatives of its companies.

Box 4: Corporate leaders collaborating to support national development goals in South Africa, the Philippines and Brazil continued

Philippine Business For Social Progress (PBSP)

Purpose and origins:

PBSP was created by a small group of Filipino business leaders in 1970 in response to a period of economic decline, high inflation, growing poverty, social unrest and political insurgency. It has evolved from a welfare-oriented organization into a non-profit 'development consortium' of over 230 domestic and foreign companies focused on mobilizing business resources and advocacy to support social and economic development, and working with close to 3,000 partners. These partners range from local barangay councils, producer cooperatives, school districts and municipalities, to national government ministries and international donors, foundations and development NGOs. Today, the mission of PBSP is, "the empowerment of the poor by promoting business sector leadership in, and commitment to, poverty reduction programs that lead to self-reliance." Self-help and participation of the poor are centerpieces of PBSP's approach.

PBSP also works alongside two other business-led initiatives in the Philippines – the Corporate Network for Disaster Response, which coordinates the mobilization of business resources to support humanitarian relief efforts, and Philippine Business for the Environment, which focuses on improving the environmental impacts of the private sector and increasingly on mobilizing business support for national and sector climate adaptation strategies.

Funding, governance and management structure:

PBSP's core funding comes from harnessing a spectrum of funding models from its corporate members. These range from traditional philanthropic contributions and the investment return on trust funds, to fees for services linked to supporting individual corporate citizenship programs and more market-oriented business linkage initiatives and loans. In its early days,

corporate members publicly committed to allocate 1 percent of their net income before taxes to support social development goals – an agreed percentage of which was channeled through PBSP and the rest retained by the company for its own community development programs. This model is still adopted by many members, but leading companies are now leveraging other core business assets and resources, and engaging in more market-based solutions through PBSP.

The organization employs over 200 people and is governed by a Executive Committee composed of 7-10 of the country's top business leaders usually chairmen or CEOs of their companies. Corporate leaders also govern three regional executive committees and committees focused on governing key program areas and project implementation. In this way, over 50 top business leaders play a governing role in PBSP's operations. The organization also has an independent research advisory group consisting of local academics.

Core activities: PBSP's main programs focus on operational, field-based initiatives for poverty alleviation and capacity building and consulting services for its member companies in the areas of corporate social responsibility and corporate citizenship. Programs include:

Supporting development clusters: PBSP's Area Resource Management approach targets impact areas or contiguous clusters of several municipalities and then focuses on organizing poor communities within these locations to increase both their economic bargaining power and control over local resources, as well as their political voice. An integrated and market-based approach is taken in each location to improve access for farmers and small and medium enterprises to infrastructure, new skills and technologies, credit and markets. Other programs supported by PBSP, such as its small and medium enterprise credit initiative and

center for rural technology development, also work with local organizations in these locations on different aspects of the system that are required to develop more sustained, market-based solutions. At the same time, member companies are directly engaged in a variety of business linkage initiatives and community development programs. This approach is currently implemented in 10 provinces.

Leveraging technology: PBSP is also using information technology in a variety of ways to scale-up service delivery and impact of its programs and it supports the development, testing and dissemination of other agri-based technologies aimed at increasing farmer productivity and demonstrating that farmer can be a profitable enterprise in low-income parts of the country.

Advocating for pro-poor policies: Another scaling strategy is the policy advocacy work that PBSP undertakes with its member companies and other development partners in areas such as education, workforce development and small enterprise development, and it claims to have influenced a number of key government policies to be more pro-poor in their design and implementation.

Leveraging company value chains: Through its 'Leadership in CSR' program, PBSP also aims to work with over 200 companies to scale up the reach and improve the performance of their own firm-level community development and inclusive business models. In cooperation with the International Business Leaders Forum, PBSP has developed a framework on how companies can support each of the eight Millennium Development Goals, and is working with its members to implement this.

Corporate leaders collaborating to support national development goals in South Africa, the Philippines and Brazil continued

Instituto Ethos in Brazil

Purpose and origins:

Instituto Ethos was founded in 1998 by a small group of Brazilian business leaders. Several of them had played a leadership role in another coalition of mostly small and medium-sized businesses, PNBE (Pensamento Nacional das Bases Empresariais – The National Thinking of the Entrepreneurial Based), which had been active in the movement leading to the impeachment of former President Collor de Mello in 1992. PNBE's President, Oded Grajew, had also established Fundacao ABRINQ (Brazilian Association of Toy Manufacturers for the rights of children), and was committed to spreading responsible labor, environmental and social practices more broadly through the Brazilian business community. After attending the annual conference of US-based Business for Social Responsibility in 1998, Grajew and some of his colleagues returned to Brazil and launched Instituto Ethos, using BSR's membership-based business model and some of its tools and resources.

From an initial membership of 12 companies, today Instituto Ethos has over 1,400 participating companies, which between them employ about 2 million people and engage hundreds of thousands of smaller enterprises along their value chains. Ethos does not represent these companies, but rather its mission is to mobilize and help them to manage their own businesses in a socially responsible manner and at the same time to become more proactively engaged in collective action and as change agents for a more just and sustainable society.

Funding, governance and management structure:

Instituto Ethos is governed by a board selected from its member companies and supported by an International Advisory Board consisting of leaders in the field of corporate responsibility from other countries, which meets once a year in Brazil. The organization is funded primarily through its member companies, revenues

from an annual conference and sponsorship of selected projects from public and private donors.

Core activities:

Instituto Ethos has undergone several phases of development, each one building on the foundations of the other.

Individual corporate practice: Initially it focused on supporting its member companies to implement responsible business practices within their own core business operations and to assess performance against a benchmark of indicators. It also implemented outreach programs to the media and journalists to raise public and consumer awareness of and pressure for corporate responsibility and it supported academic outreach to integrate teaching on corporate responsibility into business school curricula.

Supply chain management: While continuing to help companies to benchmark and improve their performance, in its second phase Instituto Ethos broadened its focus to supply chain management, with the aim of spreading good practices more widely.

Collective and systemic action: In its third phase, the vision and programmatic scope has broadened to a more systemic approach aimed at making markets or systems work more effectively in selected clusters and locations. This shift recognizes the need for more collective action in order to achieve scale and impact. Ethos has launched several value chain initiatives, for example, aiming to build more inclusive and sustainable value chains in livestock, forestry and soy products between producers in Amazonia and consumers in major cities such as Sao Paulo. It has also been instrumental in launching the 'Our Sao-Paulo Movement', which brings together civil society organizations and community leaders to promote greater accountability and

transparency in local government. And it is getting more engaged in advocacy for policy and regulatory reform in the area of sustainable development.

IV. MULTI-STAKEHOLDER ALLIANCES

The past decade has seen the emergence of a variety of systemic, multi-stakeholder alliances, many of them unprecedented. These are collaborative models that involve a group of companies working with other private and public sector actors on a collective basis in a specific industry sector, value chain or geographic location and/or focused on jointly addressing a specific development, social or environmental challenges. These multistakeholder alliances are emerging to address a wide variety of development challenges from global health to environmental sustainability, economic development, food security, and disaster prevention and response. In addition to public-private partnerships, other terms used to describe these ‘systems-level’ alliances include collective action, multi-stakeholder initiatives (MSIs), collaborative governance, networked partnership, and concerted action.

As FSG comment in their note *Beyond Partnership: Concerted Action*: “Foundations and corporations spend billions of dollars annually on education, health, global development and other social issues, but in too many cases dramatic improvements in literacy, health, income, and the environment remain elusive. Complex social problems are affected by large and interdependent systems, yet social sector funders still focus primarily on individual programs by single actors. While their work can be well planned, executed and measured, it often doesn’t deliver the desired scale of impact. In many circumstances, sustained progress requires multiple actors to take concerted action that can bring about large-scale change. Concerted action is the commitment of a group of key actors from different sectors to a common agenda for solving a targeted social problem through alignment and differentiation of efforts.”³

In their paper, *Governing Collaborative Governance*, Zadek and Radovich, note: “Multi-stakeholder and public-private partnerships are becoming a fundamental ‘organizational building block’ underpinning a growing array of activities seeking to mobilize and impact on diverse stakeholders in achieving a blend of public and private goals.”⁴

Some of these systemic, multi-stakeholder alliances are global in their scope and structure, others regional, national or local. Some are initiated or convened by government entities, others by corporations, foundations and NGOs, many by a combination of the above. In most cases they are housed or incubated within an existing organization, often the core convening institution or an independent or mutually respected and trusted third-party intermediary organization. A number of the most strategic have evolved or been established as independent entities and intermediaries with their own governance structures.

Some of these alliances have a ‘closed’ membership or strict requirements for participation, especially those focused on rule-setting or improving accountability and transparency, others are much more ‘open-source’ and inclusive, aiming to attract as many participants as possible. In some cases technology-enabled platforms play a key role in enabling a more networked and informal, but still deliberative model for collaboration. Notwithstanding these different characteristics, these alliances share some common features, which are summarized in Box 5.

BOX 5: Common features of multi-stakeholder alliances

Although the specific goals, scope of activities, conveners, range of participants, legal, governance and accountability structures and modus operandi of these alliances differ widely, they share the following common characteristics:

<p>Systemic change:</p>	<p>They focus on tackling complex, often inter-dependent challenges and achieving change or transformation at a more systemic level than is possible with one-off projects or through most firm-level partnerships or other one-to-one organizational partnerships. Although it should be noted that one-to-one partnerships between two organizations may evolve into these larger more systemic alliances – the evolution of the sustainable fisheries partnership between Unilever and WWF into the independent multi-stakeholder Marine Stewardship Council is an example. Likewise, initiatives branded by a single company can evolve into systemic multi-stakeholder alliances involving many other companies and development actors while retaining the ‘flagship’ brand – the Cisco Networking Academies now operating in over 150 countries with thousands of entities engaged, being an example.</p>
<p>Multi-stakeholder participation:</p>	<p>These alliances go beyond one-to-one partnerships to engage larger numbers of stakeholders – either public, private and civil society organizations working together across sectors or companies working together across different industries or companies working with their competitors in the same industry. These stakeholders may have a variety of different motives and governance structures, but all share a common interest or ‘stake’ in working collectively and deliberatively, usually on an ongoing basis, to address a complex, systemic challenge or set of challenges.</p>
<p>Intermediation:</p>	<p>In most cases either the alliance itself, if it is established as an independent entity or platform, or the convener or conveners, or a trusted third-party organization play a vital and active intermediation or brokerage role. This may involve identifying and bringing together a wide range of different participants in a constructive and proactive manner; accommodating, leveraging and where necessary mediating different interests, resources and objectives among participants; developing common goals and ‘rules of engagement’, including communication and operational responsibilities; and developing metrics and modes of governance and accountability both internally among participants and externally.</p>
<p>Impact at scale:</p>	<p>They aim to operate and achieve impact at scale, either tackling issues along an entire value chain or business ecosystem, or at a national, regional or global level. Most of them either start with, or develop, not only ‘theories of change’ but also explicit ‘strategies for scaling’. These include: <i>direct expansion of the alliance</i> itself, either growing horizontally to reach larger numbers of people, vertically to expand the scope of its activities and objectives and/or through increasing the number, reach and influence of its participants; <i>affiliation with other alliances or initiatives</i> that are focused on tackling the same or similar complex, systemic challenges; <i>replication of the alliance</i> either through creating spin-offs, or through a structured social ‘franchising’ approach supported by technical assistance and sharing of tools and approaches, or through more competitive forces; changing the way a market works; and integrating into public policy frameworks, political processes and national or regional development strategies.</p>

There are numerous ways to categorize multi-stakeholder alliances – including by scope of activities; types of participants; governance and institutional structure, or purpose. The following section looks at five categories of multi-stakeholder alliances categorized according to the broad challenge they have been created to address:

- **Making value chains more inclusive and sustainable** – sector-based alliances that aim to overcome barriers to make value chains more inclusive and sustainable in key development sectors and/or industry sectors, such as health, agriculture and financial services. These often focus on helping low-income producers or workers to improve their access to financial resources, information and markets. Or they focus on helping low-income consumers to improve affordability and reliability of essential products and services. Some also focus on discovering, developing and disseminating breakthroughs in science and technology that can benefit the poor, such as information and communications technology, life sciences and clean technology;
- **Implementing national and regional development priorities** – geographic focused alliances that aim to support integrated approaches to development in particular locations from the local to national and cross-border. Many of these consist of joint efforts between governments and the private sector, including the creation of independent bodies that are jointly governed by business and government leaders.
- **Enhancing the effectiveness of humanitarian and social programs** – alliances that aim to ensure that philanthropic dollars, product donations and social investments are leveraged effectively, especially in situations of humanitarian crisis and disaster. Multi-stakeholder alliances for education are also key examples of collective effort to improve development outcomes.
- **Improving mutual accountability and transparency** – usually industry-focused global alliances aimed at improving public accountability for the social and environmental performance and impact of large corporations in developing countries. Although voluntary in nature, many of them focus on setting common rules and standards to improve either non-financial performance of companies and corporate value chains (i.e. anti-corruption, human rights, labor and environmental performance) and/or to improve mutual accountability of both governments and corporations.
- **Advocating for progressive policy reform** – these are alliances where companies join forces with non-governmental organizations to advocate for policy reform at with the local, national or global governance level. They focus on policy reforms in both developing countries and donor countries. They aim to create a better enabling environment or stronger public institutions to catalyze more inclusive markets and business models, improve environmental performance and/or support low-income producers, employees and consumers more directly. In donor countries they focus on issues such as aid, trade and investment policy reform, with these end-goals in mind.

IV. MULTI-STAKEHOLDER ALLIANCES

Each of five categories of multi-stakeholder alliance outlined on the previous page is worthy of more detailed analysis. Many are already the subject of research and are supported by increasingly sophisticated communities of practice. The following section aims only to provide a few illustrative examples of multi-stakeholder alliances in each of these categories. It aims to illustrate how such alliances can harness the contribution of the private sector, catalyze market-based solutions to development and leverage a combination of public and private and/or social and commercial resources. A common aim through many of the alliances profiled is to overcome barriers and achieve scale or systemic impact in addressing key development challenges – going beyond what any individual firm-level partnership or even government or donor agency could achieve on its own.

Multi-stakeholder alliances represent an important although often challenging new mode of engagement in development and poverty alleviation. Building these multi-stakeholder alliances is neither easy nor a panacea. They often have high transaction costs and are difficult to establish and sustain. Many are new and untested. Yet, they have the potential to expand opportunity and access to millions of people.

Multi-stakeholder alliances can help to ‘level the playing field’. They can enable their participants to aggregate their resources, market power and/or political voice to achieve greater leverage and broader development, social or environmental impact than could be gained by working at the level of individual corporate value chains. They represent one of the most significant new approaches to private sector engagement in poverty alleviation and they raise the potential for achieving scale and sustainable change. They warrant continued analysis, evaluation and support.

1. Making essential value chains and systems more inclusive and sustainable

The following section offers a few illustrative examples of systemic, multi-stakeholder alliances in some of the value chains that are especially important to alleviating poverty:

- (i) Increasing agricultural productivity and sustainability
- (ii) Improving health and nutrition outcomes
- (iii) Making financial services more inclusive.

The examples focus on alliances that aim to achieve greater scale and systemic impact in serving the poor as producers, employees or consumers. These alliances are doing so either through overcoming market failures in order to improve access to markets or to catalyze market-based approaches to delivering essential products and services and/or by improving the broader enabling environment in order to achieve scale through influencing public policy and institutional frameworks.

(i) Increasing agricultural productivity and sustainability

There is now widespread agreement on the central role that agriculture plays in poverty alleviation – from improving the productivity, incomes and resilience of smallholder farmers and rural communities, to ensuring food security and better nutrition for the rural and urban poor. After several decades of declining public sector investment in agricultural research and rural development by official donors and governments, the situation is being reversed. At the same time, private sector investments are also increasing. Agriculture is a sector that cannot be ignored by anyone interested in pro-poor growth, with some 75 percent of the world's poorest people dependent primarily on agriculture for their livelihoods and food security and with the agricultural sector in some of the poorest parts of the world being the most threatened by climate change and water insecurity.⁵

Achieving more sustainable and inclusive patterns of agriculture and food security and reducing rural poverty calls for a number of actions. These include:

- **Improving access to and increasing productivity of land, water and other resources** in agriculture, as well as in forestry and fisheries. In many cases this requires reform of land tenure systems and ownership rights and more integrated, multi-stakeholder approaches to water and other resource management at the community, national and regional level, in addition to the application of science and technology.
- **Increasing research and development** in affordable and environmentally sound technologies and farming practices that can increase productivity – from seeds, fertilizers and irrigation systems to burgeoning mobile information technology solutions – and then sharing these more widely through better agricultural extension services and encouraging their adoption through the provision of relevant incentives and financial services.
- **Supporting capacity building and empowerment in the rural sector**, including training, outreach and extension programs, community institution building and the creation of producer associations, and improved access to financial and technical inputs and advice, especially for women.

- **Improving linkages** between the formal, large-scale agribusiness sector and small-scale farming activities. At present only a small minority of smallholder producers in developing countries are connected to commercial agricultural value chains. On the input side such linkages are required between the suppliers of agricultural inputs and technologies and farmers to improve their affordability, reliability and safety, often with the support of microfinance institutions and local banks. On the output side they include collaborative ventures such as outgrower schemes and reliable contracts between smallholders, producer associations and agro-processing or retail companies.
- **Developing innovative financing and risk management mechanisms** to help smallholder farmers and producer associations manage both market and weather-related risk and improve their financial management and security.
- Strengthening rural infrastructure, ranging from physical infrastructure such as roads and other transportation infrastructure, warehouses and irrigation systems, to vastly improved marketing and distribution facilities and rural financial institutions.
- **Promoting fair or ethical trade and equal access to global markets** for agricultural products from developing countries. This includes initiatives to help producers in developing countries to meet the growing food safety, fair labor and environmental requirements of international markets.

The challenges of reducing rural poverty, investing in sustainable agriculture and ensuring food security can only be met by a combination of public and private resources – financial, technical, scientific and managerial - and new forms of partnership between governments, international agencies, smallholder farmers, producer associations, civil society organizations and the private sector. Genuine multi-stakeholder dialogue, acceptance of the power dynamics in global agricultural systems and efforts to build and strengthen the national private sector in developing countries, especially producer associations and agribusiness companies are fundamental to achieving these objectives. Governments will have to play a lead role in providing the necessary policy and regulatory frameworks in all of the above areas, but within these frameworks the private sector has an important role.

These issues are of paramount interest to companies and industry associations in the agribusiness and food sector, operating at different stages along the food value chain. This includes life science companies, chemical and fertilizer producers, equipment manufacturers, large-scale commercial producers, commodity trading companies, shipping and other transportation companies, food and beverage manufacturers and retailers. Companies in the financial sector, especially those with a focus on agricultural financing and microfinance institutions, information technology companies and infrastructure companies, especially construction engineers and companies in the water and energy sectors, also have an impact on rural development and a business interest in reducing rural poverty and promoting sustainable agriculture. Agricultural workers unions, producers cooperatives, academic and research institutes and foundations also play an important role in supporting public-private partnerships in this area and in many cases helping to build the capacity and bargaining power of smallholder farmers and catalyzing market-based solutions.

Box 6: The New Vision for Agriculture

The New Vision for Agriculture is a multi-stakeholder and multi-disciplinary collaborative initiative led by the World Economic Forum. It mobilizes leaders from business and the public sector and experts in the fields of agriculture, food security, hunger and nutrition, financial services, the environment and climate change to achieve more inclusive and sustainable agriculture and to address hunger and global food security. In launching the initiative, WEF cited the following overarching vision: "The New Vision for Agriculture is one in which all people have access to sufficient, nourishing, affordable food and other agricultural products; where environmental resources and habitats are effectively managed and conserved; and where agriculture is a driver of sustainable economic growth worldwide."

To achieve this vision the initiative has identified three goals that must be met simultaneously:

1. Provide food security for all
2. Increase agricultural production in an environmentally sustainable manner, including meeting the challenges posed by climate change
3. Generate economic growth and opportunity, including support for smallholder farmers.

The initiative works at both the level of convening global policy dialogues and supporting research and awareness-raising, and through coordinating on-the-ground collaborative initiatives. A project Board provides strategic leadership and oversight for the initiative, as well as direct support for implementation on-the-ground. The Project Board includes: Archer Daniels Midland, Bunge Ltd., The Coca-Cola Company, DuPont, General Mills, Kraft

Foods, Metro AG, Monsanto, Nestle, PepsiCo, SABMiller, Syngenta, Unilever and Yara International.

Policy dialogue, research and awareness-raising

Global dialogue between business leaders, policy makers and experts occurs through the World Economic Forum's annual and regional meetings and through the Global Agenda Council on Food Security. At the same time, the initiative engages with other programs focused on food security, such as the Alliance for Green Revolution in Africa, the Feed the Future initiative launched in 2010 by the United States Government and various UN-led initiatives. The New Vision for Agriculture initiative has also undertaken research, supported by Boston Consulting Group and others, on identifying commercially viable and scalable business models in agribusiness, financial services and information technology companies that include the rural poor as producers, employees and consumers.

At a regional level, it has held a series of dialogues in Africa and Asia, aimed at raising business awareness and political will and at helping to broker practical partnerships in the following areas: improving infrastructure; expanding financial services; improving access to land; commercializing agriculture and strengthening markets; strengthening value chains; expanding agro-processing; and mainstreaming gender.

Implementing collaborative solutions

The initiative has also spearheaded several on-the-ground collaborative efforts led by major corporations and working closely with governments and smallholder farmer associations.

In 2006, for example, it created the **Business Alliance Against Chronic Hunger** (BAACH). This is a network of 30 companies and partners, which are working together in Kenya to test about 14 different models of business-led solutions to raising agricultural productivity and tackling hunger. The models are focused on different food commodities and different stages of the food value chain – from improving food production to processing and packaging, expanding retail distribution and strengthening local entrepreneurs, producer organizations and market linkages. Between them, these projects have the potential of benefiting some 90,000 people.

The New Vision for Agriculture and its corporate partners have also launched several **agricultural corridor initiatives** in Mozambique, Tanzania and Vietnam. These are being led by multi-sector steering committees, co-chaired by business and government and including business leaders, government ministers, donors and representatives from farmer organizations. The steering committees are identifying feasible investment opportunities and areas for business engagement, developing detailed blueprints for implementing these, and brokering partnerships to make it happen.

Box 7: Multi-stakeholder alliances to include smallholder farmers in cash crop value chains:

Examples of cashews, coffee, fruit and cocoa from the Bill & Melinda Gates Foundation

African cash crop markets could benefit over 40 million smallholder farmers if developed to increase access to markets, production opportunities, and incomes for these producers. Yet, these markets face four key constraints that prevent such outcomes: low market opportunity for smallholders due to insufficient and poor quality production, limited buyer interest in sourcing from these markets and linkages to smallholders, limited access to finance for producers and processors, and an unsupportive enabling environment.

Four of the Bill & Melinda Gates Foundation's cash crop grants, African Cashews (grant made to GTZ), East African Coffee (grant made to TechnoServe), East African Fruit (grant made to TechnoServe), and West African Cocoa (grant made to World Cocoa Federation), attempt to address these constraints in their respective country and commodity markets.

They do so by building pivotal partnerships with the various private sector players that act along the cash crops value chains and better coordinate production and procurement in order to both benefit smallholders and meet the commercial interests of corporate partners. These projects are also cross-sector collaborative efforts that bring together nonprofit organizations, companies and public sector players such as government officials. They target interventions along a given cash crop market value chain from working with input providers and smallholder farmers, to incorporating financiers and training processors, to guaranteeing demand in export markets. Smallholder farmers participate to access income generating opportunities in new or increased crop

production. Companies participate often for commercial incentives such as the prospect of developing a new procurement market, lowering their supply chain costs and improving the quality and reliability of supply of the sourced commodities. The overarching objective of these projects is to better coordinate production and procurement in order to benefit smallholders and meet the commercial interests of corporate partners.

Three models are being experimented with: identify and build private sector partnerships as needed through the project; lock in the nonprofit and private sector partner at the start of the project; and establish a broad multi stakeholder partnership at the start of the project. The best approach will likely depend on the product market in question, the industry structure for that market, the readiness of different companies to engage, the local context, and the dominant market constraints that limit participation of the poor.

To help build markets, each of these projects incorporates three important strategies: they invest in increased production, build increased value addition and processing, and incorporate supporting tools such as access to finance and dedicated policy advocacy organizations.

First, the private sector partnerships focus on **improving and increasing production of these crops**. The objective is to address the constraint of low productivity and volatile production and demonstrate that African smallholders can be a dependable and viable source of products for global buyers. To do so these partnerships work

closely with smallholder farmers, helping to organize them into farmer cooperatives or other producer groups, and providing critical extension training and opportunities to sell to commercial buyers to these groups.

- In the African Cashews project for instance the key grantee, GTZ, is responsible for training national-level extension staff. These staff work with cashew farmer organizations to train them in better farming methods to produce crops that meet international buyer quality standards. And to ensure sustainability, GTZ also works with local cashew processors to develop their own extension services to train the smallholders they source from.
- A second member of the partnership, a fair-trade organization called FairMatch, is responsible for providing similar extension training for a smaller subset of farmer organizations which are producing crops for higher end specialty or fair trade buyers.

Second, the partnerships also focus on **improving the quality of production**, both at the farming and processing of farmed goods stages.

- They often channel in-kind or direct financial investments from private sector partners to local processors and manufacturers who turn raw crops into finished or semi-finished food products.
- In the African Cashews grant, local processing capacity is developed in at least three ways. Across all three models, best practices are shared at the pre-

Box 7: Multi-stakeholder alliances to include smallholder farmers in cash crop value chains continued

Examples of cashews, coffee, fruit and cocoa from the Bill & Melinda Gates Foundation continued

competitive level to help improve the competitiveness of African processors and the quality of smallholder production throughout the entire market: First, OLAM, the world's largest supplier of raw cashew nuts, is building fully-owned processing capacity in the project countries working. Second, Global Trading, another partner, is forming joint ventures with local entrepreneurs to build in-country processing capacity. Third, some independent entrepreneurs are putting up the investment needed to build their own locally-owned processing plants.

- Nonprofit organizations in these partnerships support improvements in production quality by providing direct technical assistance and training to processors. In African Cashews, TechnoServe works with processing units in target African countries to train them in improved standards and procedures and to develop business plans and materials to help these processors access additional support such as financing. TechnoServe plays a similar role in the East African Coffee grant, where local TechnoServe staff and extension trainers work with farmer coffee cooperatives to help them finance, obtain and learn how to use wet mills.

Finally, the partnerships also aim to **improve the larger supporting environment** in which their target markets operate. Perhaps the most targeted method they use for doing so is funding and building the capacity of dedicated advocacy organizations.

- This strategy is deployed in African Cashews and West African Cocoa in particular. The former builds a nascent organization called the African Cashews Alliance, while the latter expands the mandate of the World Cocoa Foundation, to advocate and engage policy makers to improve government policy and infrastructure and investment.
- The World Cocoa Foundation and African Cashews take similar approaches, and not only coordinate the activities along the value chain of all participating partners, but also invite government participation in the partnership. These projects do so to both ensure that promotion of cocoa and cashew production becomes a priority for governments in target countries, and to try to eventually link up with national extension service programs.

In addition to advocating for improvements in the regulatory environment, these projects also bring financiers to the table to address the key access to finance constraint that persists across all four cash crop value chains. This is done in at least two ways:

- East African Fruit illustrates one approach, which is to incorporate third party debt financiers into the projects. In this project, The Coca Cola Corporation's (Coke) purchase commitments from fruit producers and processors are leveraged to encourage two regional banks, Equity Bank and Centenary Bank, to provide financing to producer groups.
- Another approach, taken in the fruit, cashew and cocoa projects, is to build in trade finance mechanisms into the project itself. In this project, a working capital facility has been built into the project to reduce operating expenses for participating coffee farmer cooperatives.

These projects are still in their early stages and so it is too early to evaluate their effectiveness. However, they offer some interesting insights and lessons on partnership and collaborative structures. And along with other such models, will require further evaluation and documentation of lessons and best practices to inform the agricultural development and other sectors.

(ii) Improving health and nutrition⁶

Global health has generally improved during recent decades with average life expectancy increasing, child mortality rates declining and notable achievements made towards the elimination of some major diseases such as polio and river blindness. Despite this progress, poor health continues to be a major constraint on economic growth and development in many countries and a daily reality underpinning continued poverty, inability to learn and work, and a poor quality of life for millions of adults and children. More than 8 percent of children living in developing countries still die before the age of five, often from largely preventable causes of childhood illness, such as respiratory infections, diarrhoea, measles and malnutrition. HIV/AIDS, tuberculosis, malaria and other infectious and parasitic diseases kill and disable millions of people annually. Lack of access to safe drinking water and sanitation, inadequate reproductive healthcare, indoor pollution from traditional fuels, poor hygiene, bad road safety conditions, inadequate occupational health regulations and certain dietary and lifestyle choices, such as smoking tobacco, add to the toll of avoidable illness and death in many countries.

At the same time, diseases affecting the poor attract few of the world's health research dollars and developing country health systems face major investment gaps and shortages of human capital. According to WHO, for example, sub-Saharan Africa has 11 percent of the world's population and some 25 percent of the global burden of disease, but less than 3 percent of the world's health workers and less than 1 percent of global health expenditure.⁷ The situation has improved markedly over the past decade driven by growing donor and government commitment to global health and the Millennium Development Goals, the leadership role of private foundations such as the Bill & Melinda Gates Foundation, breakthroughs in science and technology innovation from life sciences to information and communications technology, and a growing focus on innovative public-private financing solutions, product development and delivery partnerships that actively engage the private sector and harness market-based solutions.

The potential to continue to dramatically improve health outcomes remains high. It requires a combination of policy reforms and the mobilization of public and private resources in the following areas:

- More scientific research and development on the health problems that affect the poor, including building the capacity of research institutes and clinical testing capabilities in developing countries;
- Wider access to essential drugs, vaccines and simple, cost-effective interventions through a combination of affordable pricing and improved delivery mechanisms;
- Concerted efforts to strengthen the effectiveness and to increase the accountability of national health systems, ranging from strengthening health workforces and health financing to enhancing service delivery, harnessing technology and improving management skills and governance;
- Communications, education and outreach programmes to increase peoples' awareness on key diseases and other health issues and in certain cases to change peoples' behaviour;
- Provision of universal, quality post-primary education which is essential for increased understanding of health issues;
- Better sharing of health-related information between and within nations and between the public and private sectors;
- Greater attention paid to nutrition and lifestyle issues;
- Improved access to clean water and sanitation;

- Implementation of guidelines and standards on the production, marketing, distribution and/or use of potentially health-threatening products, from pesticides and other chemicals, to certain foodstuffs, alcohol and tobacco;
- Increased research on the connections between environmental hazards and health, and on the growing linkages between health and climate change.

Neither the private sector and market-based nor the government and supply-side interventions can achieve these objectives operating on their own. Multi-stakeholder alliances and public-private partnerships are needed from financing, discovery and development to delivery of health and nutrition solutions. Over the past two decades, some of the most innovative and far-reaching partnerships between governments, donors, foundations, the private sector, research institutes and civil society organizations have been in the area of global health. They are too numerous and multi-dimensional to go into detail in this summary, but there is no doubt they have had made a valuable contribution to improving global health. In a study of 23 major global health partnerships, the Overseas Development Institute highlights the following contributions that these multi-stakeholder alliances have made to tackling diseases of poverty:⁸

- Getting specific health issues onto national and international agendas
- Mobilizing additional funds for these issues;
- Stimulating research and development
- Improving access to cost-effective health care interventions among populations with limited ability to pay;
- Strengthening national health policy processes and content with a focus on outcomes;
- Augmenting health service delivery capacity; and
- Establishing international norms and standards.

At the same time, ODI concluded that this contribution is undermined by some common and soluble accountability challenges. These include insufficient participation in decision-making by recipient countries and beneficiaries, inadequate use of critical governance procedures, failure to compare the costs and benefits of public versus private approaches, high transaction costs for managing the alliances, lack of partnership building skills, and wastage of resources through inadequate use of existing country systems. These findings match similar analysis undertaken by the World Bank Group on global public private partnerships. In short, there is potential to improve, but little doubt that multi-stakeholder alliances in the area of health and nutrition offer enormous potential to improve health outcomes. One area that warrants increased focus is how they are implemented at the country-level in a manner that effectively engages local businesses and civil society organizations. Box 8 illustrates the Global Alliance for Improved Nutrition as just one example of a multi-stakeholder alliance that is operating as both a global partnership and a country-level coordinating and facilitating platform.

Examples of global health partnerships

Some of the most successful global health partnerships over the past decade are as follows (in alphabetical order):

African Comprehensive HIV/AIDs Partnership; Alliance for Microbicide Development; Global TB vaccine Foundation; European Malaria Vaccine Initiative; Foundation for Innovative New Diagnostics; Global Alliance for the Elimination of Lymphatic Filariasis; Global Alliance for Improved Nutrition; Global Alliance for TB Drug Development; GAVI Alliance; Global Fund for HIV/AIDs, TB and Malaria; Global Health Council; International AIDS Vaccine Initiative; Institute for One World Health; International Partnership for Microbicides; International Trachoma Initiative; Mectizan Drug Donation Program; Microbicides Development Program; Micronutrient Initiative; Medicines for Malaria Venture; Pediatric Dengue Vaccine Initiative; Roll Back Malaria; Stop TB; Vaccine Fund.

Source: Global Health: Making partnerships work. Overseas Development Institute, 2007

Box 8: Multi-stakeholder alliances to improve nutrition:

Examples from the Global Alliance for Improved Nutrition (GAIN)

The mission of the Global Alliance for Improved Nutrition (GAIN) is to reduce malnutrition through food fortification and other sustainable strategies aimed at improving the health and nutrition of populations at risk. To make the nutrition market more inclusive, GAIN deliberately takes an integrated approach, which simultaneously targets the enabling environment (e.g. government policy and regulation), the value chain of key food and beverage companies, and individual business models. GAIN plays a catalyzing and brokering role and plans for its own exit from the start of its programs.

Recognizing that scale is very important in driving down the cost of fortification and ensuring public health impact, GAIN works to realize national and global coordination in input procurement, processing, and distribution. These efforts require that GAIN mobilizes not only individual partnerships with companies, but also broader industry and cross-sectoral collaborations. Through these country-level partnerships and collaborations, GAIN aligns the incentives for different stakeholders through product innovation, business model development, policy improvement and/or regulatory changes. GAIN also provides financial and technical support to public and private sector actors in order to extend nutrition markets from high income groups to over 200 million people in 26 countries.

Three of the main collaborative approaches undertaken by GAIN are as follows.

1 National Fortification Alliances: The National Fortification Programs provide a platform for cooperation and division of labor among key stakeholders at the country level. They are essentially coalitions of governments, businesses, international organizations and civil society groups at the country level that provide strategic guidance and oversight for national fortification efforts.

One example of a National Fortification Alliance is a five-year program in Ghana focused on addressing anemia, which contributed to 20% of maternal deaths, through iron fortification. Vegetable oil and wheat flour were selected as product areas appropriate for fortification because they are widely used and readily available to vulnerable communities. GAIN provided US\$ 1.8 million for the purchase of premix, improvement of quality assurance systems that verify correct fortification levels and development of consumer education campaigns around fortification. The national alliance, a partnership of 35 public and private organizations, is executed by the Food and Drugs Board of Ghana together with the Ghana Health Service and the Ghana Standard Board. It is set to produce 40,000 metric tons of fortified vegetable oil, and 481,000 metric tons of fortified wheat flour. As of June 2009, estimated 13.2 million people were consuming fortified wheat flour and 4.1 million – fortified vegetable oil.

2 Business Alliance: The Business Alliance provides a platform for networking, knowledge sharing and partnership among companies engaged in the nutrition space. It is through the Business Alliance that GAIN supports corporate innovation with respect to nutrition products, services and business models. GAIN essentially creates a neutral, safe space for experimentation for companies to experiment and learn, and to explore potential partnerships that would result in both business and social value creation. For example, partly as a result of one Business Alliance event and with GAIN support, Danone began to partner with the Grameen Bank and Nobel Peace Prize Mohammed Yunus. This led to the development and launch of Shoktidoi, an inexpensive and nutritious fortified yogurt, in Bangladesh.

More than 300 business leaders have taken part in Business Alliance events around the world.

Box 8: Multi-stakeholder alliances to improve nutrition:

Examples from the Global Alliance for Improved Nutrition (GAIN)

3 The Amsterdam Initiative on Malnutrition (AIM): This is another example of new partnerships emerging from the GAIN network, which could be replicated by other donor countries and their major companies and research institutions.

Launched in 2009, AIM brings together Dutch public and private sector organizations and the GAIN in a coalition focused on tackling malnutrition in selected African countries. Its founding partners include: the Dutch Ministry of Foreign Affairs; GAIN; Unilever; DSM; AkzoNobel; Wageningen University (WUR); and Interchurch Organisation for Development Cooperation (ICCO).

The effort is focusing on the following goals: Jointly develop and pilot innovative models to reach the low income population, by engaging them not only as consumers, but also as producers, suppliers or distributors in the value chain; Improving supply and access to affordable nutritious food products; Reducing vitamin and mineral deficiencies by 20 percent; and Targeting vulnerable populations, especially children and mothers. AIM is initially working in six target countries: Ghana, Kenya, South Africa, Ethiopia, Mozambique and Tanzania. It will build on existing in-country systems and programs, focusing on the sustainable production and distribution of fortified staple foods and condiments through market channels.

By documenting what is being learned, especially with regards to new business models that can be replicated elsewhere, GAIN continues to build and transfer knowledge and know how across the nutrition market.

Note also that GAIN is itself a collaborative alliance of governments, international organizations, the private sector and civil society. GAIN was created in 2002 at a Special Session of the UN General Assembly on Children and became a Swiss foundation in 2003. It receives funding from a number of organizations including the Bill & Melinda Gates Foundation, the Canadian International Development Agency (CIDA), the Children's Investment Fund Foundation (CIFF) and the United States Agency for International Development (USAID).

(iii) Making financial services more inclusive.

As outlined in the section on private financiers in Part Two of the report, one of the greatest contributions that more inclusive business can make to alleviating poverty is developing and delivering affordable and reliable financial services for the poor. In particular, these include savings products, credit, insurance products and remittances services. The transformative impact of mobile technology has also been documented in other parts of the report. In most cases where financial service have been successfully provided to the poor on a sustained and scaled basis there have either been firm-level partnerships between financial institutions, technology companies, donors, NGOs and community-based organizations and/or multi-stakeholder partnerships. Beyond serving the poor directly is the importance of making financial services more accessible and affordable to small and medium enterprises.

Multi-stakeholder alliances also have a valuable role to play in field-building. Some of the initiatives active in this area were profiled in Part Two of the report, including the Consultative Group to Assist the Poorest (CGAP), the Council of Microfinance Equity Funds, the Access to Insurance Initiative, the Microfinance Information Exchange and the Aspen Institute of Development Entrepreneurs (ANDE). Box 9 illustrates two other multi-stakeholder alliances aimed at improving access to financial services: an industry-led initiative, the GSMA Mobile Money Fund; and an initiative focused on policy makers, the Alliance for Financial Inclusion.

Box 9: Multi-stakeholder alliances to improve access to financial services:

I. THE GSMA Mobile Money Fund

The GSMA is an industry association that represents the interests of the worldwide mobile communications industry. The GSMA unites nearly 800 of the world's mobile operators, includes more than 200 companies in the broader mobile ecosystem (including handset makers, software companies, equipment providers, Internet companies, and media and entertainment organizations), and works across more than 219 countries. The GSMA is focused on innovating, incubating and creating new opportunities for its membership, all with the end goal of driving the growth of the mobile communications industry. It recognizes that it creates value for operators and the mobile industry by spurring innovation and the provision of services for the benefit of end users – including

individuals across the developing world. Through its Mobile Planet initiative, the GSMA works to leverage mobility to help enrich and improve the lives of those in developing countries, bringing services to these markets in a socially responsible manner.

One example is the effort to accelerate mobile money services for unbanked markets and for those living on less than US\$2 per day. With the support of the Bill & Melinda Gates Foundation, the Mobile Money for the Unbanked (MMU) program aims to reach 20 million previously unbanked people with mobile financial services by 2012. The MMU program includes a \$5m innovation fund, which provides grants to mobile operators to accelerate deployment of mobile money services for unbanked households through

commercially viable models. It also includes a commercial advocacy program to conduct market research and host working groups to help mobile operators develop mobile money deployments that reach down-market. With over 1 billion people in emerging markets who do not have a bank account, a CGAP/McKinsey study suggested that this opportunity could amount to a \$5 billion market opportunity.

A series of MMU Working Groups are also being implemented to stimulate discussion and knowledge sharing around mobile money issues among specific industry segments and on specific topics. There is also a regulatory element that seeks to improve the dialogue between financial regulators, telecoms regulators and the mobile industry.

Box 9: Multi-stakeholder alliances to improve access to financial services continued

2. The Alliance for Financial Inclusion

One of the biggest barriers to increasing financial access to the poor through new and improved financial service products, services and business models is the inability of many financial policies and regulation to allow for innovation while providing adequate consumer protection. Innovation in country policy and regulatory systems is therefore necessary. Yet governments (policymakers and regulators) are faced with a knowledge and know-how gap in this area, and can find it difficult to identify and implement appropriate policy and regulatory innovations and best practices.

The Alliance for Financial Inclusion (AFI) was set up to overcome the knowledge gap and to support the development and application of appropriate financial services policies and regulations. AFI's design was based on two premises: i) many of the best policy and regulatory innovations to expand financial access have originated in developing countries (e.g. Kenya, Brazil, the Philippines) where the impediments to financial inclusion are most acute; and ii) the best way to improve financial access policy is to help regulators learn from their peers who are grappling with similar issues and leading innovation.

The Alliance for Financial Inclusion (AFI) is a global network of policymakers in developing countries that provides its members with the tools and resources to share, develop and implement their knowledge of cutting-edge financial inclusion policies that work. Its goal is to enable an extra 50 million people living on less than \$2 a day to have access to savings accounts, insurance and other formal financial services by 2012. It works to achieve this goal by connecting policymakers so that they can share their insights and implement the most appropriate financial inclusion

policies for their countries' individual circumstances. It is piloting a demand-driven, best practice exchange among Southern country policymakers and regulators.

Established in September 2008, AFI is managed on behalf of its members by GTZ GmbH, with funding from the Bill & Melinda Gates Foundation.

The network is the primary mechanism for sharing research and knowledge generated through the project, promoting best practices, and facilitating global learning. It includes policymakers at all levels: central bankers, ministerial advisors, supervisors, bank and telecom regulators, and their staff, but also provides limited access to practitioners, academics, and donors. South-South exchange grants (\$50,000 each) are available to policymakers seeking to: learn from counterparts in other Southern countries; support staff exchanges to observe policy implementation first-hand; implement national seminars, regional working groups, and international conferences.

AFI also provides grants to support the design and implementation of policy solutions that will expand the provision of financial services to previously underserved populations. These grants may provide short term support for discrete steps in developing and implementing a particular local solution, or long-term support for a country's implementation of a pro-poor policy solution. Both new and proven solutions will be supported and policy-makers will be able to define their own solutions adapted to their unique environment.

Through these efforts, AFI is already promoting a global policy learning agenda that is increasing global and national understanding of which solutions work and why. Although it is early days, peer-to-peer linkages formed through AFI are beginning to result in changes that could help transform the policies & regulations that govern financial service markets and market actors, and thus could help make financial services markets more inclusive.

IV. MULTI-STAKEHOLDER ALLIANCES

2. Implementing national and regional development priorities

Collaborative on-the-ground action by companies operating in developing countries, either within the private sector or in partnership with other development actors in the public and civic sectors, can be an important mechanism for improving investment climates and both advocating for and supporting the implementation of pro-poor policies and programs. In addition to establishing the type of business leadership coalitions outlined in Box 4, there are other opportunities to create targeted leadership efforts that collectively engage the private sector, especially large domestic companies, more directly and strategically in supporting key development and poverty alleviation goals. Three sometimes overlapping areas of multi-stakeholder collaboration offer potential at the national or regional level:

- (i) National compacts of global programs
- (ii) Spatial development initiatives – clusters and corridors
- (iii) Alliances to improve regional trade and investment climates

(i) National compacts of global programs

One model of collaborative action on the ground is national ‘implementing’ partnerships of global programs. The multi-stakeholder Country Coordinating Mechanisms of the Global Fund to Fight AIDS, Tuberculosis and Malaria and the more recent National Compacts of the International Health Partnership are two public-private examples in the area of health.

A few global business leadership networks have also established or are cooperating with on-the-ground business coalitions, with an express goal of advancing development, social or environmental objectives.

- The United Nations Global Compact, for example, has over 90 Local Networks.
- The World Business Council for Sustainable Development has an network of some 60 CEO-led business organizations that share a common goal of providing business leadership for sustainable development in their respective countries or regions. Their activities range from policy dialogue to creating standards and metrics to project implementation.
- The International Business Leaders Forum has established and ‘spun-off’ national business and development partnerships in over 10 countries.
- The Global Business Coalition Against AIDS, TB and Malaria has affiliations with national business coalitions or impact initiatives in about 30 countries.

In some cases these local entities have been established with the explicit purpose of being a local partner to the global program. In others, they are existing business leadership coalitions that have been identified by the global initiative as sharing common values and goals and therefore as a suitable local implementing partner. South Africa’s National Business Initiative, for example, serves as the local partner of both the UN Global Compact and World Business Council for Sustainable Development.

(ii) Spatial development initiatives – clusters and corridors

These are integrated development initiatives that mobilize private and public resources to support coordinated strategies in clearly defined regions, corridors, or industry clusters. In recent years there has been growing interest in the corridor approach as a way of overcoming market and governance barriers to achieving greater scale and systemic impact in Africa. In the agriculture sector, for example, spatially focused approaches are at the heart of the strategies of the New Vision for Agriculture, the TransFarm Africa Initiative and the Alliance for a Green Revolution in Africa (AGRA). AGRA concentrates on catalyzing Green Revolutions through an integrated set of interventions in high potential ‘breadbasket’ areas (areas with large concentrations of smallholder farmers, relatively good soil and basic infrastructure).

In her paper, *Development Corridors and Spatial Development Initiatives in Africa*, Dr. Rosalind Thomas offers the following definition:

“...development corridors are described as transport (or trade) corridors with under-utilized economic potential in their environs, the development of which would be explored through spatial planning and development projects (SDIs). They are therefore seen as a means of configuring, prioritizing and promoting inter-related infrastructure and large-scale economic sectoral investments in defined geographic areas so as to promote trade and investment led economic growth; optimize the use of infrastructure; encourage value-added processing; and enhance the competitiveness of African economies.”⁹

Dr. Thomas highlights several key principles that underpin the SDI approach as a more market-based way of thinking about development and poverty alleviation. Namely:

- There must be real economic potential – for example under-utilized natural resources or physical infrastructure;
- As far as possible, private sector resources should be mobilized – either through commercial investments or public-private partnerships;
- Scarce public sector resources should be applied where they will have the most impact
- The benefits of economic growth should be shared with those previously excluded – for example through linkages with local small, medium and micro-enterprises and community development initiatives.¹⁰

There are major challenges to be overcome if these development corridors are to succeed. The usual barriers of weak governance and lack of large-scale project management capacity as well as other professional and technical skills in both the public and private sector are particularly important issues that need to be tackled. At the same time, this collaborative priority-setting approach offers potential for more responsible and pro-poor development of key natural resources in Africa.

The examples in Box 10 illustrate three different cluster-based approaches to poverty alleviation:

- the Business Trust in South Africa – A national business-led initiative focused on job creation and development in targeted sector clusters and poverty nodes
- * the WBCSD-SNV Inclusive Business Alliance in Latin America – A regional cross-industry cluster promoting inclusive business models
- collaborative local content programs in the mining and energy sector.

Box 10: Examples of national and regional business-led development clusters

The Business Trust in South Africa

Following a period of incubation by the National Business Initiative, the Business Trust was established as an independent entity in 1999. Its goal is to combine the resources of business and government in areas of common interest to accelerate the creation of jobs, build capacity and combat poverty.

The organization is funded and governed by a combination of private and public sector leaders. Its board consists of government Ministers and corporate chief executives. The board agrees on priorities and sets strategy. The management team then partners with relevant government departments or contracts implementing agencies to execute programs. In some cases it has created a new intermediary organization, such as the Tourism Enterprise Partnership, to serve as an implementing agency. Strict management principles and processes are applied – clear targets are set for each program and performance is measured against development impact (economic and social returns), corporate investor return, and government return. The management expense ratio has been kept at a level of about 4% throughout the first ten years of the Trust's operation.

The Business Trust has also established a number of new public-private financing mechanisms. One example is the Ukulungisa Project Preparation Fund that aims to be a self-sustaining revolving fund to help local municipalities prepare market-based infrastructure projects that provide water, sanitation and roads to poor communities, often in partnership with private entities. Another example is the Shared Growth Challenge Fund, which is designed to facilitate commercially viable business linkages and commercial transactions between large and small enterprises that directly provide products and services to the poor or include them as suppliers in corporate value chains.

- **Core activities:** The Business Trust's strategy focuses on three pillars – encouraging growth in priority sectors, building capacity in skills and infrastructure, and combating poverty.
- **Pathways to scale:** The Business Trust aims to achieve scale and sustained impact either through catalyzing commercially viable business models in high priority sectors and clusters or through embedding programs into government services and improving the capacity of government to

deliver and sustain these programs. It has also identified 21 'poverty nodes' – both urban and rural areas that experience high levels of poverty – and targeted public and private investment and integrated job creation efforts and service delivery to these areas.

Since its creation, independent evaluations estimate that the Business Trust's programs have created income and work for 1.5 million people, including farmers, artisans, call center agents and small-scale entrepreneurs. It has also attracted over 1 Billion Rand in new investment to poor areas. Despite these successes, the Trust has experienced major challenges in building sufficient implementation capacity and recognizes that a number of the programs have yet to achieve the conditions for sustainability, making initial exit strategy goals difficult to meet. At the same time, the model demonstrates the potential of applying rigorous private sector management disciplines, setting clear performance targets, and combining public and private resources in a targeted and transparent manner.

The WBCSD-SNV Inclusive Business Alliance in Latin America

In 2006, the World Business Council for Sustainable Development (WBCSD) and SNV Netherlands Development Organization formed an alliance to promote inclusive business in Latin America. The Alliance works in three areas, with activities carried out at the country level by SNV staff and representatives of WBCSD's local chapters:

- **Raising awareness of inclusive business:** CEO Forums have been held and materials distributed in eight countries – Bolivia, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Peru – engaging with more than 300 companies.

- **Brokering new inclusive business opportunities:** The Alliance's awareness-raising efforts have generated more than 80 inclusive business ideas, and approximately 40 are now being implemented. These ideas range from micro bank cards in Bolivia to small-scale production of the jatropha seed for biofuels in Honduras. Together, these projects have the potential to impact approximately 400,000 people.
- **Policy advocacy to improve the enabling environment for inclusive business:** The Alliance has also worked to

tackle regulatory and policy constraints. In Ecuador, for example, the Alliance engaged the government to build economic inclusion and inclusive business into the development agenda. The resulting National Program for Economic Inclusion contains \$87 million in public credit lines to facilitate inclusive business projects, with a focus on agriculture. Building on what it has learned in Latin America, the WBCSD-SNV Inclusive Business Alliance is now expanding into Africa, with initial steps taken in Mozambique and Zimbabwe.

Source: Business Trust, WBCSD and SNV

Box 10: Examples of national and regional business-led development clusters continued

Collaborative local content programs in the mining and energy sector

In the extractive sector, companies are overcoming barriers, gaining efficiency and effectiveness, and empowering local stakeholders through collaboration – doing together what it would not be economically viable to do on their own. Three multi-stakeholder initiatives are profiled below. Firm-level partnerships are even more common.

Centro de Apoio Empresarial, Angola

In Angola, BP, Esso, Chevron, Total, and the national oil company Sonangol have collaborated to support the Centro de Apoio Empresarial (CAE), a business support center providing training and consulting services for local SMEs with the potential to win contracts in the industry. CAE also houses a Certified Supplier Directory and works to build the capacity of local trainers. BP coordinates the initiative, which is implemented by CDC Development Solutions, an NGO. All participating companies contribute resources and contract opportunities. Since it was launched in 2005, CAE has trained representatives of more than 900 companies, and provided one-on-one consulting services to nearly 100. By the end of 2008, CAE clients had won \$59 million in contracts, enabling them to create 1,463 jobs.

PROMINP, Brazil

Brazil's National Oil & Natural Gas Industry Mobilization Program (PROMINP) was created by federal government decree in December 2003. It involves Petrobras, the Brazilian Development Bank, several government ministries, the National Organization of the Petroleum Industry and several other major business associations. Its objective is to maximize national content, turning approximately \$100 billion in planned investment in the sector into an engine of growth for the country. As such, PROMINP analyzes supply and demand of goods and services; identify gaps; and undertake programs to fill those gaps. Flagship programs include the construction of a new dry dock; a \$150 million professional qualification plan; and a \$14 million national supplier development framework with SEBRAE, a small business association, as implementing partner.

Mozlink, Mozambique

Based on a successful firm-level partnership between IFC and Mozal, a \$2 billion aluminum smelter in Mozambique, to build the capacity of local SMEs to qualify for contracts with the company, in 2003 the partners decided to transform the program into a multi-stakeholder initiative: the Mozambique SME Linkage Development Program (Mozlink). Mozlink brought in other large companies, such as Coca-Cola, Sasol, and SABMiller, to create more business opportunities for SMEs by aggregating the demand for their products and services. Participating companies engage in knowledge sharing and joint supply analysis, and then support mentoring, training, and access to finance for relevant SMEs through an SME Development Center engaging local business development service providers. Mozlink Phase I, from 2003-2005, resulted in contracts of approximately \$15 million with 25 SMEs. Mozlink Phase II, initiated in 2005, has resulted in more than \$20 million in contracts with 80 SMEs by Mozal and other firms.

(iii) Alliances to improve regional trade and investment climates

An unfavorable investment climate and weak regulatory and institutional structures are among the greatest impediments to private sector development generally and pro-poor growth and inclusive markets more specifically. While governments must take the lead in creating better enabling conditions, there is growing recognition that multi-stakeholder alliances and public policy dialogues are often necessary to drive and sustain progress.

At the national or sector-level, some developing countries have established national investor roundtables or centers for competitiveness and innovation, which combine the resources of both the public and private sector. These aim to go beyond traditional business associations or supply-driven government programs to take a more demand-led and markets-based approach to improving the country's overall investment climate or that of specific industry sectors.

On a regional and international basis, business associations or groups of companies are also affiliating with inter-governmental initiatives or helping to fund public-private partnerships that are focused on improving regional investment conditions and international trade and investment flows.

Two diverse examples of such public-private initiatives focused on Africa are the African Investment Climate Facility and Business Action for Improving Customs Administration in Africa. They are briefly described in Box 11. The US-Palestinian Partnership is another example aimed to improve trade and investment in the West Bank.

Box 11: Multi-stakeholder alliances to improve Africa's investment and trade climate

The following examples illustrate a growing number of multi-stakeholder alliances aimed at improving national, regional or international investment climates and trade flows. In all these cases, major corporations and/or business leadership coalitions are working closely with governments to overcome barriers and to share both financial costs and technical assistance.

1. The Africa Investment Climate Facility (ICF): catalyzing policy improvements

Purpose and origins:

The ACF was launched at the World Economic Forum in Cape Town in June 2006 as an unprecedented partnership between governments, development partners and individual corporations. It is headquartered in Dar Es Salaam and became operational in 2007. It aims to

Funding, governance and management:

ICF is the only pan-African body, based in Africa and governed by a multi-stakeholder African and international Board of Trustees, that is explicitly and exclusively focused on improving the continent's investment climate. It is also supported by a Technical Advisory Committee, which is composed of representatives from its corporate investors and development partners and advises on specific projects, assesses operational progress, mobilizes local business support, and generates thematic task forces.

Partners:

In addition to African Governments, ICF's development partners include the African Development Bank, the International Finance Corporation and the Governments of Germany, Ireland, the Netherlands, Norway, South Africa and the United Kingdom. Corporate partners include: Anglo-American; Coca-Cola; Microsoft; SABMiller; Royal Dutch Shell and the Shell Foundation; Sasol; Standard Bank; Unilever and Zain.

Core activities:

ICF is designed to be a facility to catalyze change with a limited lifespan of seven years and specific targets and performance metrics. Projects are selected according to specific priority themes, which have been mutually agreed by the private and public sector participants. These include: business registration; customs administration; land registration; commercial justice; tax and VAT administration; anti-counterfeiting and piracy; and power sector support. Any government applying for ICF support must agree to a co-funding, burden-sharing model and be a supporter of the Africa Peer Review Mechanism, aimed at improving governance and accountability.

To-date the ICF has provided funding, technical assistance, and support for coalition-building and project management to some 40 projects in over ten countries and several regional initiatives. In Rwanda, for example, work has been undertaken to establish commercial courts and improve land titling and registration, in Senegal the amount of time to clear goods through customs has been decreased from days to several hours through improving paperless electronic customs administration, in Lesotho it is supporting work to simplify and improve the administration and collection of Value-Added-Tax, and in Liberia it is working with the government to speed up the process of registering businesses.

2. Business Action for Africa: improving regional customs administration

Purpose and origins:

Business Action for Africa is a network of companies and business associations focused on policy advocacy and collective action on the ground. It aims to support growth and poverty reduction in Africa and to promote a more balanced view of the continent through sharing investment opportunities, good practices and success stories. It was created on the recommendation of the UK-led Commission on Africa.

It is a network, not a new institution or intermediary organization, and is supported by a small secretariat. One of its key programs is Business Action for Improving Customs Administration in Africa (BAFICAA). This private sector-led trade facilitation initiative aims to improve the local customs environment in East Africa, boost regional trade and improve the investment climate.

Funding, governance and management:

The program is led by Unilever, British American Tobacco, Diageo, SITPRO (the UK's trade facilitation agency) and the East African Business Council. BAFICAA's primary objective is to achieve measurable and meaningful progress in customs reform by retaining a strong private sector lead while working in a wider co-operative relationship with governments, donors and other stakeholders in Africa.

The aim is to build a cooperative dialogue between business and governments based on a relationship of trust and the recognition that the private sector can be an active partner in improving the customs environment. The program recommends practical improvements in the customs environment to benefit the broader local economy and leverages technical assistance and advice to implement these improvements. For governments, an improved customs regime generates higher government revenues through increased

volumes of trade and a more stable and robust fiscal environment, a better investment climate for business, less bribery and corruption and a more difficult environment for illicit businesses. For business, faster, more predictable and efficient customs enables better business planning, more scope for regional and global supply chain integration, lower inventories and products getting to market faster.

Core activities:

On the basis of a business-focused study in 20 countries, recommendations for improving customs administration have been developed. In East Africa, BAFICAA has been working with the East Africa Business Council and government authorities to change the culture of customs administration from a controlling function to a facilitating one. Program activities are focused on six key areas:

- Fast-tracking customs services for compliant and low risk taxpayers and traders
- Supporting change and improving capacity in customs administration
- Automating customs processes and procedures
- Establishing a service charter between the customs services department and the private sector
- Avoiding duplication and unnecessary bureaucracy in Post Clearance Audits and valuation processes
- Training, accreditation and certification for customs agencies.

Box 12: A Multi-stakeholder alliance to improve the investment climate in Palestine: The U.S.-Palestinian Partnership

The U.S.–Palestinian Partnership (UPP) is managed by the Aspen Institute’s Middle East Programs. It was established in 2007 and currently focuses on the West Bank. It aims to foster partnerships between American and Palestinian leaders in the public, private and non-profit sectors to Expand economic opportunity for the Palestinian people. This is being achieved through the implementation of income-generating jobs, investment and entrepreneurship.

UPP operates through a variety of activities ranging from the design and implementation of projects and active support for the creation of investment and risk management vehicles to convening key stakeholders and hosting leadership exchanges and dialogues between Palestinians and Americans. In almost all cases, UPP works with a combination of corporate, nonprofit and public sector partners. Key U.S.-based working partners have included Cisco Systems, Intel, Microsoft, Google, the Case Foundation, the Kairos Project, Booz Allen and Hamilton, the U.S. State Department, and USAID among others.

Focusing on key industry clusters

In coordination with the Palestinian Authority and United States Government, the UPP focuses its efforts on the development of three primary economic sectors that are deemed to be crucial to economic growth, job creation and the achievement of broader development goals: information and communications technology (ICT); hotels and tourism; and agribusiness. Examples of projects underway include the following:

- **Information and Communications**

Technology: Working with Cisco Systems and building on Cisco’s outsourcing model, UPP is supporting an effort to

promote the outsourcing of research and development and engineering projects to Palestinian software companies by identifying Palestinian companies able to work as contractors with Cisco and other American companies. It is also planning the launch of an ICT Incubation Project that will combine training, mentorship and exchanges between Palestinian ICT leaders and entrepreneurs and their American counterparts.

- **Hotels and tourism:** UPP is working with the Kairos Project to help facilitate a university partnership between the Conrad Hilton College at the University of Houston and the Bethlehem University School of Hospitality, which will support an integrated program of curriculum development, online training and job placement in the hospitality sector. It is also exploring a variety of investment opportunities to increase the diversity, quality and number of hospitality facilities in the West Bank.

- **Agribusiness:** The partnership is working with agribusiness, technology companies, hotel chains, investors and donors to look at a variety of technologies and business models aimed at increasing the export of Palestinian produce and products to the United States and building more sustained business linkages between hotel operations in the Middle East and Palestinian agribusiness companies.

Promoting innovative investment vehicles

From the outset, the UPP has recognized the challenge of access to capital and risk management services for Palestinian businesses and entrepreneurs. It has been one of the organizations active in securing investment for the **Middle East Venture Capital Fund (MEVCF)**. Launched with initial anchor investments in 2009, MEVCF is

a planned US\$50 million fund that will invest in early stage Palestinian ICT companies with a focus on those with high-potential for local job creation and economic growth in the Internet, mobile and software sectors. Palestinian ICT and software exports have shown steady growth over the past decade, one of the few sectors to do so.

In part, this is due to the fact they are not as challenged by the restrictions on physical movement of goods and people that hinder so many other industries in the region, and in part it is a result of the educated Palestinian population and growth in local ICT skills, qualified engineers and IT infrastructure over the past decade. The MEVCF aims to build on this foundation by increasing access to venture funding, international markets and business partnerships for high-potential enterprises in this sector.

As of March 2010, investors in the MEVCF have included the European Investment Bank, the Soros Economic Development Fund and the Skoll Foundation. This group in itself is a good example of innovative new partnerships between investment banks and philanthropic foundations, and between the public and private sectors.

UPP has also worked with the **Middle East Investment Initiative**, which is itself a partnership between organizations such as the Overseas Private Investment Corporation and the Palestinian Investment Fund. MEII has developed a loan guarantee program to generate increased lending to small and medium-sized Palestinian enterprises, a risk insurance product to protect Palestinian companies against losses from trade disruptions and political unrest, and the provision of affordable mortgages for home ownership in parts of the West Bank.

IV. MULTI-STAKEHOLDER ALLIANCES

3. Enhancing the effectiveness of humanitarian and social programs

Some multi-stakeholder alliances aim to make more strategic and leveraged use of philanthropic and public resources to address a humanitarian or social challenge with the aim of:

- Meeting immediate and often urgent humanitarian needs in a more efficient, performance-driven and accountable manner
- Meeting these needs in a way that builds the capacity of local leaders and their institutions.

Nowhere are these issues more pressing – or challenging – than in situations of humanitarian crisis, whether through natural disasters or man-made conflict. The two examples profiled in Box 13 illustrate ways in which information technology companies and healthcare companies are cooperating in a more strategic and systemic manner with leading humanitarian organizations. In both cases, the aims of these collaborative efforts are not only to improve the effectiveness of emergency response, but also to ensure better preparedness for emergencies and strengthen local capacity and resilience over the longer term.

Box 13: Multi-stakeholder alliances to improve humanitarian assistance

1. Harnessing the power of information technology: NetHope

Relief and humanitarian organizations require communication infrastructure in disaster zones and rural development areas, yet it is costly and inefficient for each to provide this on their own. That's where NetHope comes in. Founded in 2001, NetHope brings together over 30 of the world's largest humanitarian organizations (Care, Oxfam, Red Cross/Red Crescent, Save the Children, MercyCorps, World Vision, etc.) to ensure that its members have access to high quality information and communication technology and practices anywhere in the world.

It accomplishes this by building strong relationships with foundations and corporations who support the use of technology to enact social change. These institutions provide financial support and make investments of resources, technical expertise, and intellectual capital. Among the primary private supporters are Accenture, Baker & McKenzie, Blackbaud, Cisco, CDW, Intel, Michael & Susan Dell Foundation, Microsoft, the Rockefeller Foundation, and Waggener Edstrom.

NetHope focuses on five strategic initiatives, all enabled by the power of collaboration:

- **Connectivity:** This program facilitates collaborative partnerships that focus on providing connectivity technology in developing regions around the world via small (less than 3 meters in size) stations to link to geosynchronous communication satellites. Hundreds of successful connectivity deployments have been accomplished through this program.
- **Field Capacity Building:** NetHope member agencies have over 350,000 employees worldwide, 90% of whom are located in the developing world – often

in remote and austere environments. NetHope organizes bi-annual summits to facilitate the sharing of information and project data between member organizations and the private sector; it has established chapters in East Africa, West Africa, India, Sri Lanka and Thailand; and it facilitates ICT (information and communication technology) Skill Building programs for IT professionals and humanitarian program staff.

- **Emergency Relief Services:** A key enabler to any emergency response effort is communications capacity including land lines, mobile devices, satellite phones and internet access. NetHope provides interagency coordination of ICT assessments; consolidation of ICT related appeals to the private sector; knowledge sharing and development of ICT hardware and software solutions; and preparedness for regions likely to be affected by emergencies through pre-deployment of equipment and training.
- **Shared Services:** ICT funding is an issue for all internationally focused NGOs, particularly given their intentional emphasis on mission and programs. The Shared Services program assists NGOs through strategic cost management and capacity building. Launched in 2008, this program currently provides shared resources for a Help Desk and Procurement.
- **Innovation for Development:** This program designs ICT solutions that can be replicated across member organizations to leverage their impact on the developing world. A key component is building partnerships between members and technology providers of hardware, software and services to accelerate the design and implementation of replicable ICT solutions. There are five

impact areas: Agriculture (providing market information systems and laptops for education and data collection), Education (ICT for classroom learning and school linking, eLearning, and youth employment), Healthcare (mobile field data management, telemedicine and ICT for disease screening and diagnosis, and geographic information systems for disease management), Microfinance (micro loan and savings management, loan guarantees tracking, and remittance), and Natural Resource Management (geographic information systems for conservation, rugged laptop for water programs, and reference libraries and collaboration platforms for data sharing).

NetHope creates wifi hotspots in the middle of disaster areas so that relief organizations can coordinate their efforts. It connects rural communities to the internet via computer and cell phones, thereby opening up opportunities for improved literacy and education, access to commodity prices and market information, and growth opportunities for tourism and other income generating activities. As Charles MacCormack, CEO of Save the Children, notes: "As CEO, the four levers I can pull to achieve greater impact are people, funding, program design, and technology. NetHope provides a means to dramatically increase the leverage of technology."

Box 13: Multi-stakeholder alliances to improve humanitarian assistance continued

2. Ensuring the quality and reliability of medical donations: the Partnership For Quality Medical Donations

Collaborations between healthcare firms that donate medical products and the humanitarian agencies that deliver them help meet important healthcare needs of vulnerable populations around the world. In the early 1990s, however, reports of inappropriate donations surfaced. In Bosnia and Herzegovina, 1992-1996, an estimated 17,000 metric tons of unwanted medical donations were received with an estimated disposal cost of US\$34 million. In 1989, during Eritrea's war for independence, seven truckloads of donated expired aspirin took six months to burn; a whole container of unsolicited cardiovascular drugs was received with two months to expiry; and 30,000 half-litre bottles of expired amino-acid infusion were received that could not be disposed of anywhere near a settlement because of the smell. In Lithuania, 1993, eleven women temporarily lost their eyesight after using a donated drug which had been received without product information and which turned out to be veterinary medicine. These and other examples are cited in the World Health Organization's *Guidelines for Drug Companies* published in 1999.

In response to these incidents, and to an earlier set of guidelines published by WHO, an informal alliance of private voluntary agencies and pharmaceutical and medical device companies was formed in 1996 and formally incorporated in 1999 as the Partnership for Quality Medical Donations (PQMD). Its membership, consisting of 13 NGOs and 14 pharmaceutical, biotechnology and medical supply manufacturers, shares a commitment to the development, dissemination and adherence to high standards in the delivery of medical products to under-served people and disaster victims around the world.

PQMD's primary objectives are to:

- Develop and promote sound donation practices by donor and recipient organizations;
- Represent members' interests before national and international agencies responsible for policy formulation affecting medical product donations and distribution;
- Encourage documentation and scholarly study of health and socioeconomic impacts of the donation of health care products and services; and
- Educate audiences on member projects and programs that serve to encourage replication of appropriate donation practices

The Partnership's website includes a virtual library with articles, donation policies and standards, papers, research studies, speeches and essays designed to educate members and the public on best practices. It also provides numerous case studies to document the collaborations between its healthcare firms that donate medical products and the humanitarian agencies that deliver and distribute these products.

The impact of the PQMD is significant. The World Health Organization recognizes the Partnership as a leading authority on medical donations. Every October, the group holds an education forum for the public on medical aid to poor countries. In 2008, PQMD members donated \$4.2 billion in pharmaceuticals, medical devices, supplies and equipment to health programs in 150 countries around the world. This represents a sizeable majority of aid given by US corporations to the developing world, according to *The Index of Global Philanthropy and Remittances*, which estimates 2007 total corporate aid for international development assistance to be \$6.8 billion.

Sources: Program and Partner websites and materials and United Nations

IV. MULTI-STAKEHOLDER ALLIANCES

4. Increasing accountability and transparency

Over the past decade a number of multi-stakeholder initiatives have been established with the express purpose of increasing mutual accountability and transparency of their participants. The main aim is usually to create common standards and metrics, and a more level playing field for improving the social, environmental and governance performance and the public accountability and transparency of core business models and commercial value chains. In some cases there are also certification schemes, which enable end consumers and other stakeholders to judge the performance of companies or specific products. As such, there is often overlap between these types of alliances and those aimed at making value chains more inclusive and sustainable.

There are many multi-stakeholder initiatives that are focused on specific commodities in agriculture, fisheries and mining. These include the Kimberly Process for diamonds; the Forest Stewardship Council; the Marine Stewardship Council; the World Cocoa Initiative; the Roundtable on Sustainable Palm Oil, the Better Cotton Initiative. Others focus on specific manufactured goods. These include the Fair Labor Association; the International Council of Toy Industries' Care Process; and the Electronic Industry Code of Conduct. There are a growing number of Ethical Trade Initiatives that cover more than one group of commodities. And there are initiatives such as the Global Social Compliance Program, which is working with a group of some 30 global corporations and independent advisers to develop a framework that allows greater consistency, efficiency and coordination across the many codes and accountability initiatives that are being launched.

The examples of the Extractive Industries Transparency Initiative (EITI), The Equator Principles, The Voluntary Principles on Security and Human Rights, the Fair Labor Association, The Ethical Trading Initiative (ETI) and the Marine Stewardship Council are briefly profiled in Box 14.

Box 14: Multi-stakeholder initiatives to improve accountability in global supply chains

Extractive Industry Transparency

Initiative (EITI) – Established in September 2002, EITI aims to improve the transparency of revenues generated by extractive projects and to stimulate wider dialogue within developing countries about public expenditure priorities. Partners include donor and developing country governments, the World Bank, oil, gas and mining companies and civil society organizations. Increasing transparency will empower citizens and institutions to hold governments to account and make mismanagement or diversion of funds away from development purposes more difficult. It should also help to improve the business environment, and attract more foreign direct investment. Such an initiative has relevance for other industries where large amounts of resources are exchanged between the public and private sector.

The Equator Principles (EP) – These were launched in June 2003 in Washington DC, with 10 banks as the founder signatories and with support from the IFC. Based on the environmental and social standards of the IFC, the EP framework requires its signatories to voluntarily adhere to these standards when financing projects in developing countries with capital costs above US\$10 million. Revised in June 2006 to include a public reporting requirement, today, the EPs are supported by over 60 financial institutions including most of the world's major banks as well as insurance companies, bilateral development agencies, and export credit agencies. Approximately 80 percent of total project finance debt in emerging markets is now managed by banks that are signatories to the Equator Principles. In order to actively engage the increasingly influential banks in China, Russia, and India and other key emerging markets, an outreach committee has been formed.

The Voluntary Principles on Security and Human Rights

– Adopted in 2000, these provide practical guidance to companies on three sets of issues: risk assessment, including the potential for violence; identification of the potential human rights vulnerabilities that firms face as a result of their relationship with public security providers, both military and police, as well as recommendations for how to deal with them; and the same for private security forces. Currently focused on the extractive sector, the VPs serve as a potential model for similar initiatives in other sectors, including humanitarian agencies. They have also been integrated into Host Government Agreements and project contracts illustrating how such initiatives can achieve scale over time through integration into public policy frameworks.

The Fair Labor Association (FLA) – FLA was established in xx to improve working conditions in factories around the world. It is an independently governed multi-stakeholder initiative that works collaboratively with apparel companies and suppliers, colleges and universities that buy apparel products and civil society organizations. All three groups have equal representation on FLA's policy-making board. The participating companies and suppliers, numbering over 40 major brands, retailers and manufacturers, agree to adhere to FLA's Workplace Code of Conduct, to have their performance independently monitored and to work with the factories in their supply chains to improve labor management and practices. Over 200 universities and colleges help to provide a market for responsibly produced apparel and to raise awareness about labor and human rights on their campuses. And the civil society organizations help to set direction and to work with local NGOs and trade unions in implementing responsible labor standards.

The Marine Stewardship Council (MSC)

– Created in 1995 initially as a partnership between Unilever and the Worldwide Fund for Nature (WWF), the Marine Stewardship Council has evolved into an independently governed global multi-stakeholder initiative that works with partners from all sectors to promote sustainable fishing practices, that are both environmentally sound and sustain and create jobs. MSC sets standards for sustainable fishing and seafood traceability, which are monitored by independent third-party certifiers. It offers fisheries around the world the opportunity to get certification and to use this in their consumer marketing and sales activities. It also partners with some of the world's leading retailers, brands and seafood businesses to integrate sustainable fishery products into their supply chains and customer outreach. In addition, MSC support capacity building programs in developing countries to help create local jobs and economic development through sustainable fishing.

The Ethical Trading Initiative (ETI) – This is an alliance of companies, trade unions and voluntary organizations that was established with support from the UK Department for International Development to improve working lives of people in selected developing countries, with a focus on Africa and Asia, who make or grow key consumer goods from food to footballs. In 2010, ETI had over 60 corporate members, producers, suppliers and retailers, who between them managed ethical trade activities that touched the lives of an estimated 9.4 million workers. Participating companies commit publicly to demonstrate progressive performance in implementing the ETI Base Code along their global supply chains.

Sources: Initiative's materials and UN sources.

PART FIVE



RECOMMENDATIONS: AN AGENDA FOR JOINT ACTION

Concerted and collaborative leadership is essential to harnessing markets and the private sector in a manner that creates both business value and development impact. Such leadership is required on the part of all the key actors in business and development: companies, entrepreneurs, financiers, business associations, donor and developing country governments, foundations, academic and research institutes and non-governmental organizations. The following section makes recommendations in six areas where collaborative leadership will be especially important.

I. ASSESS AND PROMOTE EMPIRICAL EVIDENCE

II. BUILD CAPACITY AND KNOWLEDGE

III. CREATE INNOVATIVE FINANCIAL INSTRUMENTS

IV. ESTABLISH OR STRENGTHEN MARKET INTERMEDIARIES AND PLATFORMS

V. SUPPORT MULTI-STAKEHOLDER ALLIANCES

VI. ADVOCATE JOINTLY FOR POLICY INNOVATION



In this world, the optimists have it, not because they are always right, but because they are positive. Even when they are wrong, they are positive, and that is the way of achievement, correction, improvement and success. Educated, eyes-open optimism pays: pessimism can only offer the empty consolation of being right. The one lesson that emerges is the need to keep trying. No miracles. No perfection. No millennium. No apocalypse. We must cultivate a skeptical faith, avoid dogma, listen and watch well, try to clarify and define ends, the better to chose means.

David S. Landes

Professor Emeritus, Harvard University

The Wealth and Poverty of Nations: Why some are so rich and some so poor

1999



RECOMMENDATIONS: AN AGENDA FOR JOINT ACTION

Markets and the private sector are by no means a panacea. As has been demonstrated by the global economic crisis, let alone situations of crony capitalism, corruption and conflict in some countries, if markets and the private sector are not well regulated, if their key players are not held accountable or if incentives become distorted toward less productive or more inequitable outcomes, they can cause immense harm - especially to the poor.

Yet this is not a reason to give up on collaborative efforts to harness market-based solutions and private sector engagement aimed at addressing poverty. In addition to smart regulation, it reinforces the need for cross-sector coordination and cooperation to make markets more inclusive of the poor and to actively engage private sector leaders to be more intentional and effective in the fight against poverty in ways that make sound business sense. It also emphasizes the importance of consulting directly with the poor as active stakeholders, and of designing equity and consumer protection into interventions from the start, as well as assessment and action learning frameworks.

Concerted and collaborative leadership is essential. It is required on the part of all the key actors in business and development: companies, entrepreneurs, financiers, business associations, donor and developing country governments, foundations, academic and research institutes and non-governmental organizations.

The following section outlines six broad areas where such collaborative leadership, or at least more coordinated interventions, will be especially important. Collaborative action can add particular value in efforts to:

- I. Assess and promote empirical evidence**
- II. Build capacity and knowledge**
- III. Create innovative financial instruments**
- IV. Establish or strengthen market intermediaries and platforms**
- V. Support multi-stakeholder alliances**
- VI. Advocate jointly for policy innovation**

I. ASSESS AND PROMOTE EMPIRICAL EVIDENCE

Inclusive business models and markets need to be better understood, evaluated and where they are effective, promoted.

1. Assessing the evidence

Although there is a growing body of anecdotal evidence in this field, more rigorous empirical analysis is needed in at least four key areas:

Improve market research and information on the poor

There is a need to undertake more research on and consultation with the poor as economic actors, aimed at getting a better understanding of their needs, aspirations, capacities, constraints and resource management strategies as producers, employees, and consumers.

Linked to this are emerging initiatives to map and assess the market potential of certain base of the pyramid income segments, sectors and locations. Groundbreaking work has been undertaken on this in recent years. It includes WRI and IFC's research on *The Next 4 Billion*, and market research studies supported by the IDB's *Opportunities for the Majority* initiative and UNDP's *Growing Inclusive Markets* Initiative, in addition to internal research undertaken by companies, donors, investors and foundations for their own investment, grantmaking and programmatic activities. This is an area that warrants greater attention and support from key development actors and corporations, both in terms of funding and technical assistance.

Participants at a dialogue on 'Starting and Scaling Inclusive Business Models' hosted by the IFC and Harvard CSR Initiative in April 2010 proposed the creation of a joint donor facility or facilities explicitly targeted at undertaking such research. IFC and Harvard summarized in the event report:

“Such a facility could pool donor funds and channel them to local organizations capable of conducting high-quality market research among low-income populations, which could be offered to companies for a fee. Such a mechanism would benefit the market, as opposed to any one company. [Thereby having a public good component and making it easier for public donors to justify to their governments and taxpayers.] At the same time, such an approach might make it possible to assess the large datasets of government social protection programs and other data, which governments are naturally reluctant to make available to individual profit-making companies or even individual social entrepreneurs and NGOs. In addition, several companies with large distribution networks in base of the pyramid markets expressed a willingness to open these networks up as additional conduits of such research.”¹

Understand inclusive business models and strategies

There is a need to understand in greater detail such models in greater detail, and in particular, what works and what does not in starting, sustaining and scaling these models. In order for the field to move forward beyond the pioneers, it has become essential to go beyond broad descriptions and to undertake detailed analysis of specific sectors, specific business models, specific value chains, and specific contexts.

In addition to the investors, foundations and companies that are directing investing in such models and undertaking this analysis internally themselves, a combination of academics and strategy and/or development consulting firms such as McKinsey & Company, Boston Consulting Group, Monitor Group's Inclusive Markets team and Dalberg among others, are starting to undertake such analysis. Much of the consultancy work is for fee-paying clients and currently does not enter the public domain, but several donor and foundation funded initiatives are helping to address this challenge by funding research for the public domain. Academic institutions have also become more active, especially the universities that pioneered the original base of the pyramid research, University of Michigan, Kenan-Flagler and Cornell and the global learning networks they have inspired.

Until recently, much of the research in the public domain focused primarily on individual business models and value chains, but pioneering work on scaling models is now being undertaken. In particular, this includes work by the Opportunities for the Majority initiative at IDB on six broad types of scaling 'platforms', by Ashoka's Full Economic Citizenship Initiative on sector-led approaches to scaling, and by the Society for Organizational Learning at MIT on systems approaches, applying Peter Senge's seminal work on systems thinking to the business and development agenda.

Measure financial, social and environmental performance of inclusive business models

In addition to better understanding the specific models and strategies that are being used to start and scale inclusive business approaches, there is the related need to be able to evaluate their returns to investors and their impact on development. This requires moving beyond financial performance, although this obviously remains crucial for sustaining such models, to also include social and environmental performance. The emerging field of impact investing and the Global Impact Investing Network is developing assessment models and tools in this area. The University of Michigan's Base of the Pyramid Impact Assessment Framework offers another emerging tool focused on evaluating the development impact and business performance of specific projects or business models.

Assess the corporation's overall 'development footprint' or multipliers

Finally, as outlined in Part Two remarkably few corporations have assessed the broader development multipliers that result from their core business operations and value chains. Emerging models to help companies and development practitioners to do this include the WBCSD's Measuring Impact Framework, Oxfam's Poverty Footprint methodology, the performance platform of the Business Innovation Facility launched in 2010 by DFID, and a variety of other socio-economic impact tools developed by companies, consultants and academics. These warrant further analysis and support from donors and companies.

Several of the emerging approaches to assess the impact of inclusive business and the broader role of business in development are explicitly structured to bring together tools and methodologies from the fields of both development and business. More can be done in this area. Models that facilitate joint evaluation teams from different disciplines or sectors can add value in this context, although there are transaction costs and timeline challenges with multi-disciplinary teams and learning approaches.

Identifying and supporting networks of southern-based research institutes, consultancies and NGOs to do this research and assessment work offers the double benefit of building the evidence base on inclusive business models and markets, while also building research capacity in developing country institutions – strengthening the capacity of both the institutions and the individuals doing the research. The following examples offer models that are worthy of greater support by donors, companies, foundations and established academic and research initiatives that have expertise in this area:

- The UNDP's Growing Inclusive Markets (GIM) initiative has established a network of some 40 researchers from developing countries. Working in partnership with Dalhousie University among others, GIM is commission case studies and now market research from these individuals and their institutions, while also providing a range of technical assistance, training on case writing and research methodologies, networking opportunities and growing community of practice.
- The Global Business School Network, which evolved out of an IFC initiative, is focused more generally on building capacity of business schools in developing countries, especially Africa. It offers a useful platform, however, for sharing and spreading expertise specifically in the four types of assessment outlined above.

Equally important and challenging are efforts to explicitly engage the poor in such assessments and evidence-building exercises. Such efforts can serve not only to improve the quality of information and feedback obtained, but also to build local skills and capacity at the community and operational level, and to build trust and relationships that can strengthen the effectiveness of the business models themselves. The *Base of the Pyramid Protocol*TM is one initiative that has embedded proactive and ongoing corporate engagement with low-income communities as a core principle and methodology. Developed by a consortium of institutional and corporate partners during 2003 to 2005 the protocol combines both business tools and practices adapted from social anthropology and Participatory Rural Appraisal to help build more equitable and sustainable business models at the Base of the Pyramid that match the resources, technologies and practices of large companies with the local knowledge, social capital and assets of low-income communities.

2. Promoting the evidence

Once more empirical evidence is available, there are opportunities for researchers as well as donors and foundations to provide independent third-party endorsement of what works and what does not to key audiences. These audiences include: decision-takers and budget holders within companies, investors and foundations; policy makers in both developing country governments and donor agencies; and in certain cases the general public who pay the taxes and increasingly raise their own funds to support global development and poverty alleviation in many countries.

In the case of engaging large companies, such third party endorsement can be useful for overcoming internal organizational obstacles, for example if senior corporate executives are not yet convinced or supportive of their managers exploring innovation in inclusive business models.

Credible third party endorsement of the development impact of business multipliers and specifically of commercially-viable inclusive business models can also be useful in helping to overcome distrust of the private sector and the profit motive among development practitioners and policy makers. It can influence policy-makers to allocate more public resources or to implement relevant incentives in support of such business models. For example, within the donor community, more empirical evidence would make it easier to allocate taxpayers' money to supporting market-based, profit-making initiatives, in addition to the more traditional humanitarian assistance and government-to-government models of donor engagement. And it can raise public awareness and support for such initiatives if made available via the media and social networking platforms.

Researchers, donors and foundations can play an important third-party role in promoting evidence of what works to key audiences. Models exist in this area in the wider development agenda – such as the policy-oriented research on ‘Millions Saved’ in the health sector and ‘Billions Fed’ in the agriculture sector, and the public awareness campaigns launched by initiatives such as ONE and the ‘Living Proof’ campaign highlighting the human stories of successful aid programs to the American public. Similar efforts could be undertaken, especially aimed at policy makers and corporate decision-takers, in the case of inclusive business and market-based solutions.

II. BUILD CAPACITY AND KNOWLEDGE

In addition to building the capacity of local research institutes in developing countries as outlined above, two other essential areas of skills and capacity building to enable inclusive business are in the corporate sector and within low-income communities themselves.

1. Build skills, knowledge and capacity in the corporate sector

For many companies, engaging in development and inclusive business models is a challenge due to lack of relevant skills, awareness and incentives within the company and/or lack of senior executive support.

Collective efforts to build the awareness and knowledge of senior executives and key decision-takers can take several forms. These range from high-level engagement platforms such as those provided by the World Economic Forum, Clinton Global Initiative and other business leadership groups to programs that increase the direct exposure of business executives to development programs in the development community through dialogues, joint task forces and study visits.

Joint efforts can also be effective in creating internal incentives for and building the skills of intrapreneurs or practitioners within the companies who will be responsible for creating inclusive business models, developing new products and services, and interacting with nontraditional partners and low-income communities. Some examples of these were highlighted in Part Two of the report, and include experiential learning and immersion programs, internal and external challenge funds and award programs, institutional study exchanges with key development partners, joint evaluation and monitoring teams, development of toolkits, and the creation of dedicated units and selection criteria.

While leading companies often undertake these activities on their own, costs and effort can be reduced and more companies and development partners engaged through collaborative action. In such cases business leadership networks and academic executive training programs can play a useful role in convening and providing collective training either to groups of companies in a particular sector or geographic location or to the key development and private sector actors working together on a particular inclusive business model or value chain initiative.

Many of the university programs profiled in Part Three offer such capacity building for companies. Learning laboratories like the Base of the Pyramid Learning Lab at Cornell University, the Society of Organizational Learning at MIT, and the Partnership Brokers Accreditation Program of the International Business Leaders Forum are other examples that can provide experiential learning, skills and capacity development for corporate executives alongside other development actors who are important in building inclusive business models.

Helping people to develop partnership-building skills

Building on 20 years of the International Business Leaders Forum's pioneering cross-sector partnership work, **The Partnering Initiative (TPI)** works with all sectors (business, civil society, governments and international agencies) to drive widespread, systematic and effective collaboration for sustainable development. TPI incorporates four interlinked elements: action research on the practice of partnering leading to the development of standards and tools; ii) capacity building of individuals to provide the necessary partnering skill set and mind set; iii) direct support | to help develop organisations and partnerships; and iv) the exchange of knowledge and experience among practitioners worldwide. TPI operates through a global network of trained Associates and has ambitious plans to scale up its operations to achieve maximum impact.

ThePartneringInitiative.org

The Partnership Brokering Project takes this work a stage further by exploring, understanding and promoting the critical role of individuals operating in the role of partnership brokers. Initially launched in

2003 as a collaborative effort between the Overseas Development Institute and International Business Leaders Forum, and now managed by TPI, this formal Accreditation Scheme has helped to establish a professional network of 'partnership brokers' over the past seven years. Over 600 leading individuals from all sectors and more than 40 countries have completed the basic intensive training and some 300 people have become accredited professionals. Participants have come from organizations such as: Accenture; ANZ bank; Chevron; Microsoft; Nike; Rio Tinto; Shell; Action Aid; CARE International; Mercy Corps; Plan; World Vision; AusAID; GTZ; UNDP; and the World Bank, among others. Many of these individuals are in positions to have influence not just on the immediate partnerships with which they work but on the organizations, systems and contexts in which they are operating. There is increasingly compelling evidence that well-brokered partnerships achieve more ambitious goals and more sustainable outcomes.

2. Build collective capacity for the poor as economic actors

There are opportunities for much greater cross-sector collaboration in building the collective capacity of the poor as producers, employees and consumers.

Building capacity of the poor as producers:

As the IFC, UNDP, IDB and many others have noted:

“Building the capacity of low-income suppliers, distributors and retailers is intimately linked to their profitability – and by extension the overall viability of the inclusive business models. The more skilled and efficient the suppliers, the greater the stability, quality, and cost savings for the company in procurement. The more productive the distributors and retailers, the greater the sales. In the cases studied [15 inclusive business models in IFC's own portfolio] – agricultural suppliers are being trained on productivity and quality as well as eco-efficiency, labor standards, and other requirements for the traceability and certification that buyers increasingly require. Distributors and retailers are being trained in marketing, accounting, managing their cash flows and their employees, and complying with the brand standards of the larger firm. In providing this training, inclusive business models often facilitate better access for the poor to formal markets.”²

Many of the pioneering companies are covering all these additional costs themselves. For many companies that are implementing or exploring inclusive business models, however, the additional costs of providing capacity-building services to small and micro-enterprises in their value chain may be a major constraint on the commercial viability or scaling of the model, especially if the producers are not aggregated. Being able to share the financial costs, technical expertise needs and extension efforts of such producer capacity building activities can make these models more viable. Such joint initiatives usually have a public benefit as well as business benefit, justifying public sector or philanthropic participation. Donors, foundations and NGOs can support burden-sharing efforts through joint funding and capacity-building facilities and also by helping to establish or strengthen producer organizations, enterprise development intermediaries and common databases, as outlined later in this section

Building capacity of the poor as potential employees

While workforce development programs and vocational training initiatives ultimately benefit the individual, there are again opportunities for companies, governments, donors and youth organizations to pool resources in providing such initiatives. The role of some of the ICT companies in this area was profiled in Part Two of the report. They have a particularly valuable ‘field-building’ role to play through the provision of e-learning opportunities and the use of information technology to create common learning platforms and networks. There are opportunities for greater cooperation between governments, donors, NGOs and companies in other industries, especially at the level of individual sectors or value chains, to ensure that training programs more closely match labor market needs, company requirements and job availability.

Building capacity of the poor as consumers

Lack of awareness and knowledge among low-income consumers of the benefits of certain products and services relative to their costs will limit their uptake and business model sustainability. This is the case for both productive inputs, for example agricultural technologies such as seeds, fertilizers, irrigation etc. and essential consumer products and services such as healthcare, energy, education and consumer finance. As outlined previously, low-income consumers have to be especially cautious and discriminating in their purchases, particularly in the case of new untested products and services. As with any new product launch, inclusive business launches can fail due to poor market research and inadequate understanding of the real needs of the consumers – hence the importance of engaging them in the market research activities outlined earlier. In the case of base of the pyramid markets lack of consumer awareness and in many cases lack of basic literacy and financial literacy can be a major impediment. The role of NGOs in working with companies, supported by donor funding can be especially important in addressing this challenge. In particular, programs targeting at educating and empowering girls and women as economic actors are proving to have substantial benefits and impacts on poverty alleviation.

III. CREATE INNOVATIVE FINANCIAL INSTRUMENTS

As has been emphasized throughout the report financing is one of the most essential components at every stage of building inclusive business models and market-based solutions. It is required by both the private sector actors building such models and by low-income producers, employees and consumers to enable them to participate in formal markets. It is also essential in facilitating multi-stakeholder alliances and collaborative platforms aimed at building the market more generally for certain essential products and services in sectors such as health and agriculture.

In almost all cases blended value propositions or hybrid financing models are required, combining different types and sources of capital with different investment horizons and requirements for returns. The interesting models emerging in the following areas warrant particular analysis, financial support and collaborative effort:

- Challenge, innovation and replication funds for companies and entrepreneurs
- Joint capacity-building funds for intermediary organizations
- Global public-private partnerships and financing mechanisms

1. Challenge, innovation and replication funds for companies and entrepreneurs

As outlined in Part Three, a number of donor agencies and foundations are creating such funds aimed at catalyzing and accelerating pro-poor investment and innovation by the private sector. There is great variety in these funds in terms of how they are capitalized, structured, allocated and evaluated. Some focus on a specific sector or even product or service. Others have a geographic focus. Most of them employ a combination of both. Equally, there is variety in terms of the allocation of funds between capital for investment purposes and funding for technical assistance and capacity-building needs. There is a growing body of experience and evaluation studies on these incentive funds and related award programs, but no single or easy to access repository for drawing on the models and lessons learned to-date. Providing funding and technical support for such a database of practices is a specific action that could benefit from collaboration between donors, companies and other development partners.

2. Joint capacity-building funds for intermediary organizations

As was outlined in Part Two in the sections on microfinance and financial services for small and growing businesses, these are two areas where there is great need, growing sophistication and immense value from intermediation mechanisms. Collaborative efforts can play a vital role in funding and building the capacity of intermediary organizations such as microfinance intermediaries and organizations that are financing and providing technical assistance to small and growing businesses. There are now numerous such facilities in the microfinance field and a growing number in the latter area, with the capacity building fund launched by the Aspen Network for Development Entrepreneurs offering one useful model.

3. Global public-private partnerships and financing mechanisms

The field of innovative public-private financing for crucial global goods is another area that is undergoing important growth and innovation. Innovative public-private and philanthropic-commercial funding mechanisms and financial instruments are being experimented with through many of the global public-private partnerships in the health sector such as the Global Alliance for Improved Nutrition (GAIN), the Global Fund for HIV/AIDS, TB and Malaria, and the GAVI Alliance. Likewise, the burgeoning field of carbon finance is offering innovative new approaches to pool public and private resources, and there is a growing need to make explicit links between funds being allocated for climate change mitigation and adaptation to those being allocated for poverty alleviation. Donors and foundations in particular can play a vital catalytic and convening role in creating such mechanisms and in supporting research on innovative new funding models.

IV. CREATE OR STRENGTHEN MARKET INTERMEDIARIES AND PLATFORMS

In almost all the most successful collaborative models that are helping to make markets more inclusive for the poor, there are intermediary organizations or networks playing a vital role in providing some or all of the following functions: identifying and brokering partnerships; mobilizing and allocating resources; managing communications and conflict resolution; monitoring performance and impact; ensuring a common advocacy voice; and spreading lessons, good practices and other useful information needed to overcome obstacles. In many cases these intermediaries have been established especially for the purpose of the initiative in question. As new cross-sector partnerships and collaborative models of development become more mainstream the role of such intermediaries needs to be better understood and supported. It is likely that many more will need to be created and/or existing ones further strengthened.

As with the other areas for collaborative action that are outlined above, the creation of intermediaries are important both for the poor as producers, employees and consumers, and for the private sector actors engaging in inclusive business and development activities.

1. Market intermediaries and networks for producers, employees and consumers

There is renewed interest in and valuable lessons to be learned from the role of producer associations, microfinance intermediaries, small enterprise support centers, common supplier databases, community-based organizations and social networks, and existing supplier and consumer networks of utilities and consumer goods companies all aimed at helping the poor to aggregate their economic and/or political capability and voice, and at the same time making it easier for larger private sector actors and other development partners to reach large numbers of people. At the same time, there has been the establishment of meta-level intermediary organizations to help build the field for a particular sector. Examples include the Consultative Group to Assist the Poorest (CGAP), the Aspen Institute of Development Entrepreneurs (ANDE) and the Global Impact Investing Network (GIIN). Traditionally, most of these intermediary organizations have been the domain of donors, governments and NGOs, all of whom should continue to play an active role in funding them and building their capacity. At the same time, there is the potential for increased engagement by companies, social entrepreneurs and financiers in funding and providing technical assistance and support to these intermediary organizations, in return for participating in and benefiting from them.

2. Corporate sector intermediaries and networks

As outlined in Part Four, the past decade has also seen growth in the number of business leadership coalitions and networks that have been established to focus specifically on corporate responsibility or the role of business in development. Examples range from business leadership organizations such as the WBCSD, IBLF and Business for Social Responsibility to issue or sector-specific intermediaries such as the Global Business Coalition Against HIV/AIDS, TB and Malaria and the International Council of Mining and Metals. These business intermediary organizations are funded primarily by their corporate members, but there are opportunities for increased collaboration with donors and foundations around specific research, outreach, capacity building and advocacy programs.

3. Multi-sector convening platforms

In addition to the business leadership coalitions above, there are also a small number of high profile multi-stakeholder convening platforms such as the World Economic Forum, the Clinton Global Initiative and the United Nations Global Compact. These platforms convene top corporate leaders, entrepreneurs and financiers with leaders from other sectors to address specific development challenges through a combination of high-level meetings and action networks, and through targeted match-making efforts and practical commitments that mobilize resources to tackle these challenges on-the-ground.

4. On-line networks

The explosion in the use of information technology and social networking capabilities has resulted in another useful form of intermediation and match-making for diverse actors interested in business and development and inclusive market approaches. Two such examples are NextBillion.org and BusinessFightsPoverty.org. There is great potential for the creation and use of such on-line networks and databases, including the mapping of inclusive business needs, models and partners structured around specific sectors or locations.

Examples of two online networks that promote inclusive business

NextBillion.net was launched in May 2005 and serves as a source of news and analysis that aims “to highlight the development and implementation of business strategies that open opportunities and improve the lives of the world’s approximately 4 billion low-income producers and consumers.” The site contains a blog, a newsroom, and a career center and hosts commentary and discussion among bloggers and readers. Initially launched by the World Resources Institute, the site is now co-managed with Acumen Fund and the William Davidson Institute at the University of Michigan, with additional support from Technoserve. A Spanish language sister site, *NextBillion en Español*, is managed in partnership with AVINA, FUNDES, and the Opportunities for the Majority Initiative of the Inter-American Development Bank.

BusinessFightsPoverty.org, launched in March 2008, is an open, informal platform for practitioners, experts, and those who are just interested in fighting poverty through good business. The platform enables members to exchange information and ideas and connect with one another. More than 6,500 members had joined as of May 2010. Business Fights Poverty also hosts private workspaces for groups of members that want to collaborate with one another on particular activities.

V. SUPPORT MULTI-STAKEHOLDER ALLIANCES

As outlined in Part Four, multi-stakeholder collaborative initiatives can play a valuable role in helping to make specific chains more inclusive and sustainable, in helping to guide and implement national or regional development priorities, in enhancing the effectiveness of humanitarian initiatives, and in improving mutual accountability and transparency of development outcomes.

These can take a variety of forms from relatively informal networks and communities of practice, to formally established institutions or coalitions with their own dedicated secretariat and sometimes their own governance and institutional structure, to targeted ‘innovation hubs’ focused on a specific development challenge in a specific location or region. A number of examples were provided in Part Four. In some cases there is overlap or blurring of the lines between these multi-stakeholder alliances and the meta-level intermediary organizations described in the previous section. The aim of these alliances is usually to integrate a variety of different stakeholder interests and resources and to achieve systemic change as opposed to directly serving member interests. They are an evolving model that requires ongoing assessment and engagement by all the development and private sector actors interested in inclusive business and markets. As outlined in Part Four some of the key categories of multistakeholder alliance that offer potential for improving development outcomes are as follows:

- **Making value chains more inclusive and sustainable** – sector-based alliances that aim to overcome barriers to make value chains more inclusive and sustainable in key development sectors and/or industry sectors, such as health, agriculture and financial services;
- **Implementing national and regional development priorities** – geographic focused alliances that aim to support integrated approaches to development in particular locations from the local to national and cross-border;
- **Enhancing the effectiveness of humanitarian and social programs** – alliances that aim to ensure that philanthropic dollars, product donations and social investments are leveraged effectively, especially in situations of humanitarian crisis and disaster;
- **Improving mutual accountability and transparency** – usually industry-focused global alliances aimed at improving public accountability for the social and environmental performance and impact of large corporations in developing countries;
- **Advocating for progressive policy reform** – these are alliances where companies join forces with non-governmental organizations to advocate for policy reform at with the local, national or global governance level.

VI. ADVOCATE FOR POLICY INNOVATION

There has been relatively little analysis on policy innovations by developing country and donor governments that are specifically targeted at improving the enabling environment or providing incentives for private sector innovation and direct engagement in poverty alleviation. Building on the lessons of the World Bank's *Doing Business* project that focuses on providing benchmarks and monitoring of regulatory processes to support private sector development more generally, there is potential for much greater action in this area. This could range from a combination of more rigorous analysis and awareness raising of different policy innovations to joint advocacy aimed at achieving the actual implementation of specific policy reforms by specific governments or government agencies. Areas that particularly warrant collaboration include:

- Policy innovations by governments that either mandate or create incentives for private enterprises operating in a country to develop more explicit and intentional inclusive business models and/or that enable the emergence of new forms of social enterprise and social investment vehicle.
- Policy innovations by governments that increase the legal empowerment of the poor and their ability to organize more effectively as economic actors, whether as producers, employees or consumers.
- Policy innovations and initiatives by bilateral and multilateral donor agencies and development finance institutions to directly enable inclusive business models and markets, such as the challenge funds and creation of dedicated partnership units outlined in Part Three.
- Policy innovations in developed countries that provide tax incentives and other tools to encourage companies, entrepreneurs, financiers, foundations and the general public in their country to get more directly engaged in global development either through trade and investment or via strategic global philanthropy and volunteering programs.

CONCLUSION

Market-based solutions are not a panacea. In some cases they are neither relevant nor appropriate. Yet, there is growing evidence that inclusive business and markets can play a crucial role in poverty alleviation. They can unleash the immense potential of scientific, technological and process innovation to tackle social and environmental problems. They can increase the cost effectiveness of each development dollar spent and enhance the sustainability of certain development interventions, allowing governments, foundations and non-governmental organizations to exit where appropriate. And through harnessing competitive market forces and/or collaboration they can accelerate the scaling of successful development solutions.

Collaborative efforts and multi-stakeholder alliances between the private, public and civil society sectors can be especially important in helping to make market-based solutions more inclusive. There are enough emerging examples of the potential of these collaborative models to warrant ongoing analysis, investment and support by all key development and private sector actors. Many of these models offer fundamentally new approaches to business and development. In doing so, they also offer some of our greatest opportunities yet of enabling several billion people to lift themselves out of poverty.

Appendix 1

The UN Global Compact's 10 Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption
- The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Appendix 2

Bilateral donors' statement in support of private sector partnerships for development

As members of the international bilateral donor community, we recognize the tremendous impact that private sector actors can have on development and we commit to working together to meet the Millennium Development Goals (MDGs). These objectives have been previously outlined in the Millennium Development Goal– Develop a Global Partnership for Development. In the ten years since the MDGs were established, the international community has made great progress in developing partnerships with business and we come together today to renew and give greater meaning to our commitment.

1 We recognize that the private sector is the engine of economic growth and development – creating jobs, goods and services and generating public revenues essential to achieve the Millennium Development Goals. Through our individual institutions we are engaging actively with both local and international businesses on development projects and we have many successes to demonstrate the value of those relationships.

2 We also recognize the important role that multilateral institutions and business organizations, including the UN Global Compact, continue to play in advancing sustainable business models and markets to build an inclusive global economy.

3 Rather than viewing the private sector merely as resource providers, we choose to recognize the private sector as equal partners around key development issues and will enter into partnerships with local and international companies of various sizes. We aim to collaborate with companies that focus not only on profit margin, but also on social and environmental impact, and whose work harmonizes with our developmental goals.

4 We recognize there are many different ways to engage with the private sector:

- We work with the private sector to implement inclusive business models – sustainable, market based solutions that are commercially viable and can deliver measurable, impactful and scalable development results for those at the base of the pyramid.
- We work with the private sector to promote responsible business practices in areas such as human rights, labor, environment and anti-corruption.
- We work with the private sector to address operational and humanitarian challenges through corporate social responsibility programs which serve both development interests and long-term business interests, improving not only the quality of life in developing countries, but also the competitive environment for companies, their license to operate and their reputational capital.
- We actively engage the private sector in public-private policy dialogue and advocacy around issues of global and national importance, including achieving the MDGs, addressing climate change, improving the investment climate and enhancing aid effectiveness.

5 While there are various ways of engaging with the private sector, we recognize certain common elements exist throughout all our partnerships. In particular, we believe true partnerships must leverage the skills, expertise and resources of all parties, and that all parties must share in the risks and rewards of the partnership.

6 We recognize the important role donors can play to help businesses overcome the challenges they face in contributing to the MDGs, including the culture shift required in balancing development objectives against maximizing return on investment, moving to inclusive business models, managing risk and measuring impact.

7 To foster a more robust private sector role in development, we as donors commit to:

- Share the risk of investment to spur and leverage the creative investments of private capital through the use of catalytic and innovative financing, including matching grants, loans, equity and guarantees, and develop new partnership mechanisms which improve our collaboration.
- Work with developing country governments to establish a supportive enabling environment through policy and regulatory frameworks that create incentives for stronger private sector participation in development.
- Facilitate stronger relationships between private sector actors and other national stakeholders, including governments, civil society and local small and medium enterprises to support country ownership.
- Promote partnerships that improve the lives of both men and women in order to secure equal opportunities.
- Build the capacity of local private sector partners to develop socially responsible business initiatives by providing targeted technical assistance.
- Increase awareness through facilitating dialogue, developing tools, and supporting learning which showcases the powerful and positive role that well-functioning inclusive markets can play in achieving the MDGs.

8 We recognize the important role that science and technology play in spurring creative and effective development solutions. The private sector is a key driver of innovation, and we will work to integrate these innovations into our programs.

Appendix 2

Bilateral donors' statement in support of private sector partnerships for development

9 We recognize that partnerships with the private sector have the greatest impact when they are strategic – programs become scalable and sustainable when they are integrated into broader strategic initiatives.

10 We are committed to working with the least developed countries and countries struggling in conflict and fragility, as well as with middle income countries with thriving private sectors.

11 We are committed to the Principles of Aid Effectiveness as detailed in the Paris Declaration and Accra Agenda for Action and will explore how these principles intersect with the work of these partnership communities.

12 We encourage the private sector to commit to an ever increasing role in and responsibility for international development and invite businesses to further shape our understanding of the roles they can play as development partners, so that jointly we can promote a lasting global partnership for development.

This statement was announced at the 2010 United Nations Millennium Development Goals Summit. As of September 2010, it has been endorsed by the following bilateral donors, with input also provided by the United Nations Development Programme (UNDP) and International Finance Corporation (IFC):

Austrian Development Agency
Danida, Denmark
Ministry for Foreign Affairs of Finland
Federal Ministry for Economic Cooperation and Development, Germany
Japan Official Development Assistance
Ministry of Foreign Affairs, The Netherlands
Norwegian Ministry of Foreign Affairs
United States Agency for International Development (USAID)
Department for International Development, United Kingdom
Swedish International Development Cooperation Agency
Swiss Agency for Development and Cooperation.

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